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Dept. Of Commerce & Insurance
Company Examinations

Report on Examination

of

American General Life & Accident Insurance Company

Nashville, TN

as of

December 31, 2001

Department of Commerce and Insurance

State of Tennessee

Nashville

EXHIBIT

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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

April 20, 2004

Commissioner Paula A. Flowers
Tennessee Dept. of Commerce & Ins.
Davy Crockett Tower, Fifth Floor
500 James Robertson Parkway
Nashville, Tennessee 37243-0565

Commissioner Sally McCarty
Secretary, Midwestern Zone
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Commissioner Alfred W. Gross
Chair, Financial Condition (E) Committee
Secretary, Southeastern Zone
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Commissioner John Morrison
Secretary, Western Zone
Montana Department of Insurance
840 Helena Avenue
Helena, Montana 59601

Commissioner Susan F. Cogswell
Secretary, Northeastern Zone
Connecticut Department of Insurance
PO Box 816
Hartford, Connecticut 06142-0816

Commissioners:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws and Regulations, and Resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of:

AMERICAN GENERAL LIFE & ACCIDENT INSURANCE COMPANY

American General Center
Nashville, Tennessee 37250

(hereinafter referred to as the Company) as of December 31, 2001, and a report thereon is hereby respectfully submitted.

Scope of Examination

The Company was last examined as of December 31, 1996, by the Tennessee Department of Commerce and Insurance and representatives of the Northeastern, Western and Southeastern (intra-zone) NAIC zones of the NAIC. Recommendations included in the previous report on examination were as follows:

- Mortgage Loans – several had been made in excess of 75% of appraised property value. It was recommended that the Company limit its investment in any mortgage loan to seventy-five percent (75%) of the value of such property securing the loan in accordance with Tenn. Code Ann. § 56-1-303(a)(11).
- Reinsurance - it was recommended the Company's reinsurance agreement with Atlantic International Reinsurance Company be amended and reviewed regularly to ensure that Atlantic International Reinsurance does not receive reinsurance premiums in excess of the direct premiums collected by the Company. It was considered that if this situation was to exist as a result of a change in the gross premium rates charged to policyholders by the Company, it appeared that the Company would be in violation of Chapter 0780-1-62 of the Tenn. Insurance Regulations.

Procedures for this examination included a review of the Company's reporting of mortgage loans and reinsurance for compliance with Statutory Accounting Principles and Tennessee Statutes. Corrective action taken by the Company for the above recommendations was as follows:

- The Company continued to make mortgage loans in excess of 75% of the value of the property securing the loan during the period of this examination. Although not allowed by Tenn. Code Ann. § 56-3-303(a)(11), the loans are allowed to be reported as admitted assets under the "basket clause" within Tenn. Code Ann. § 56-3-303(a)(15).
- The Company recaptured the business ceded to Atlantic International Reinsurance Company and retroceded it to Sun Life. It was ceded at 100% on a co-modco basis during the period of this examination.

This examination, which began April 1, 2002, covers the intervening period from January 1, 1997 through December 31, 2001, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. This examination was conducted by representatives of the Tennessee Department of Commerce and Insurance and an examiner from the State of Delaware representing the Northeastern NAIC zone.

The examination consisted of a review of corporate minutes and records, verification and valuation of assets and determination of liabilities, reserves and the resulting unassigned (surplus) funds of the Company in accordance with the rules and regulations established by the National Association of Insurance Commissioners (NAIC) and as prescribed or permitted by Tenn. Code Ann. Article 56 and Related Laws, Rules and Regulations. Financial Condition Examination Procedures were adhered to as promulgated by the NAIC.

An examination was also made into the following matters:

- Company History
- Management and Control
- Corporate Records
- Holding Company System
- Fidelity Bond and Other Insurance
- Employee Welfare
- Territory, Plan of Operation and Insurance in Force
- Growth of the Company
- Mortality & Loss Experience
- Statutory Deposits
- Market Conduct Activities
- Reinsurance
- Accounts and Records
- Litigation, Contingent Liabilities & Subsequent Events
- Financial Statement

Such tests and reviews were conducted as were deemed necessary or appropriate for the purposes of this examination. This report is written by exception, except for certain items of regulatory significance, and those matters examined and found to be substantially in compliance with statutes will not be commented on further. Events subsequent to the December 31, 2001 examination date are included where relevant and appropriate.

The Company is audited annually as part of the audit conducted for the holding company system by an independent accounting firm. The audit for the year ended 2001 was completed during this examination and the auditors' workpapers were made available to the examiners in June 2002. While the independent auditors' workpapers were made available in a very timely fashion, the work documented therein did not include enough substantive testing to preclude the examiners' detail testing. Workpapers that were useful included documentation of the Company's procedures and verification of internal controls. These were relied upon where sufficient for the purposes of this examination and copies are included in the examination files where appropriate.

The annual statements for the years ended December 31, 1997 through 2001 were reviewed and reconciled to the Company's books of account. The majority of the Company's original records are maintained at their primary administrative home office in Nashville, TN. Investment records, specifically those for mortgage loans, stocks and bonds, are maintained at the offices of the Company's parent either in Houston, TX or New York, NY. The locations of the Company's books and records was determined to be in accordance with Tenn. Code Ann. § 56-2-104.

Company History

The Company was incorporated February 28, 1900, under the assessment law of the State of Tennessee as the "National Sick and Accident Association of Nashville". The name of the Company was changed by charter amendment to "National Life and Accident Insurance Company" in 1902.

The Company's business continued on the assessment plan until 1905, when its business was reorganized on a legal reserve basis. An ordinary life department was created in 1920, prior to which time the Company had written industrial life insurance only,

The Company became a wholly-owned subsidiary of NLT Corporation (NLT) on December 23, 1968, the effective date of a Plan Exchange and Agreement dated

September 30, 1968, whereby shareholders of the Company exchanged their shares on a one-for-one basis for an equal number of shares in NLT.

On November 4, 1982, NLT became a Wholly-owned subsidiary of American General Corporation (AGC) pursuant to an Agreement of Merger dated July 6, 1982. This agreement was supplemented and amended by an Agreement and Plan of Merger dated August 17, 1982; the two are collectively referred to as the Merger Agreement.

Effective January 30, 1984, AGC contributed all of the outstanding capital stock of NLT to AGC Life Insurance Company (AGCL), which is domiciled in Missouri. Subsequently, on April 30, NLT was dissolved and the Company became a wholly-owned subsidiary of AGCL.

The Company changed its name to American General Life and Accident Insurance Company (AGLA) via a charter amendment effective January 1, 1985.

On December 23, 1993, 100% of the outstanding common stock of Gulf Life Insurance Company, a wholly-owned subsidiary of AGCL, was contributed to the Company by AGC in the amount of \$304,725,000. The merger was approved by The Tennessee Department of Commerce and Insurance on August 31, 1995, and became effective December 31, 1995.

On October 21, 1996 the Company acquired Southern Educators Life Insurance Company, domiciled in the State of Georgia, via a Stock Purchase Agreement.

On December 31, 1997 the Company merged with Home Beneficial Life Insurance (HBL), a Virginia domiciled company. The Tennessee Department of Commerce and Insurance approved the merger on September 17, 1997. The merger provided for the cancellation of common stock in HBL with no change in the issued and outstanding common stock of the Company (surviving corporation AGLA).

Also effective December 31, 1997, the Company merged with Independent Life and Accident Insurance Company (ILA), a Florida domiciled insurance holding company. The Tennessee Department of Commerce and Insurance approved the merger on September 17, 1997. The merger provided for the cancellation of common stock in ILA with no change in the issued and outstanding common stock of the Company (surviving corporation AGLA).

On March 31, 1998, pursuant to a Stock Purchase Agreement between the Company and Direct General Corporation dated August 25, 1997 and amended January 30, 1998, the Company sold Independent Life Insurance Company (a Georgia domiciled affiliate of ILA) to Direct General Corporation (a Tennessee corporation and unaffiliated third party).

On March 30, 1999, pursuant to a Stock Purchase Agreement between AGCL, the Company and State National Holdings, Inc., Independent Fire Insurance Company (IFIC) was sold to State National Holdings, and 48% of the issued and outstanding shares of American General Property Insurance Company which were owned by IFIC were transferred to the Company.

On August 29, 2001, the Company's ultimate parent, AGC, was acquired by American International Group (AIG), a Delaware corporation. In connection with the acquisition, AIG issued approximately 290 million shares of its common stock in an exchange for all of the outstanding common stock of AGC based on an exchange ratio of 0.5790 of a share of AIG common stock for each share of AGC common stock. The capitalization of the Company was unaffected by this transaction. The acquisition was approved by the Tennessee Department of Commerce and Insurance on August 10, 2001.

Capitalization

During the period of examination, the Company's maximum number of authorized shares of common capital stock remained unchanged at 15,422,400, and AGC Life Insurance Company held all of the issued and outstanding shares (at a par value of \$5 per share). The capitalization of the Company during the examination period is summarized as follows:

	<u>Shares issued & outstanding</u>	<u>Common Capital Stock</u>	<u>Paid in Surplus</u>
Balance, January 1, 1997	15,120,777	\$ 75,603,885	\$ 223,526,218
1998 Paid in Surplus			5,676,267
2000 Paid in Surplus			91,700,000
2001 Paid in Surplus			3,160,663
Balance, December 31, 2001	<u>15,120,777</u>	<u>\$ 75,603,885</u>	<u>\$ 324,063,148</u>

Management and Control

The Bylaws of the Company, as adopted May 14, 1991 and last amended May 5, 1992, state the Annual Meeting of Shareholders may be held at such date and time as shall be designated by the Board of Directors for the purpose of electing a Board of Directors and for the transaction of other such business. Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if consent in writing is signed by all the shareholders entitled to vote with respect to the subject matter thereof. This consent shall set forth the actions so taken and have the same effect as a unanimous vote of shareholders.

The Company's general practice is to hold its annual shareholders meetings in early May. During the period of examination, the Company held five meetings of its shareholders. One hundred percent (100%) of the outstanding shares were voted by the Company's shareholders, as of record date, at each meeting.

Board of Directors

The Company's Bylaws, state that "the business and property of the Company shall be managed and controlled by the Board of Directors who need not be shareholders or residents of the State of Tennessee" and that this Board "shall consist of not fewer than three (3) and not more than twenty (20) Directors." A majority of directors constitutes a quorum.

At December 31, 2001, the following persons had been duly elected by the Shareholders and were serving as members of the Board:

<u>Board Member</u>	<u>Business Affiliation</u>
Rodney Owen Martin, Jr., Chm. Houston, TX	President American General Corporation
Richard Lewis Bender Nashville, TN	President American General Life and Accident Insurance Co.
Ronald Horton Ridlehuber Houston, TX	President, Agency Building Group American General
David Anthony Fravel Houston, TX	Senior Vice President, American General Life Insurance Company

Board Member

David Lawrence Herzog
Houston, TX

John Vincent LaGrasse
Nashville, TN

Gary Dalton Reddick
Houston, TX

Business Affiliation

Executive Vice President
American General Life Insurance Company

Executive Vice President
American General Life & Accident Insurance
Company

Executive Vice President
American General Life Insurance Company

The Company's Bylaws require that the Board hold an annual meeting immediately after the annual meeting of the shareholders. The Bylaws allow any action required or permitted to be taken at a meeting of the Directors to be taken without a meeting if before such action is taken, a written consent setting forth the action to be taken is signed by all members of the Board. Directors may also participate in meetings "by means of conference telephone or similar communications equipment.

From January 1, 1997, the starting date of the period of this examination, through July 18, 2000, the Board held in addition to annual meetings; quarterly, regular and special meetings as follows:

<u>Type Meeting</u>	<u>Number Conducted</u>
Annual Meetings	5
Regular Meetings	4
Quarterly Meetings	6
Unanimous Written Consent	27
Special Meetings	3

Beginning August 24, 2000 and continuing through the end of the period of this examination, all of the Board's meetings except for annual meetings were conducted by unanimous written consent of all Directors in accordance with the Company's Bylaws.

Any Director may be removed from office by a majority vote of the shareholders then entitled to vote at an election of Directors. Election to remove an officer may be made at any meeting at which a quorum of stockholders is present. The Board may elect additional members as the Directors may determine from time to time. Vacancies may be filled by the affirmative vote of a majority of the remaining Directors even

though less than a quorum. All of the members of the Company's Board with the exception of Directors Bender and Ridlehuber also serve on the Board of its affiliate, American General Property Insurance Company. During the period of examination, attendance by Directors at Board meetings averaged slightly above 82%.

Officers

The Bylaws provide that "the officers of the Company shall consist of a Chairman of the Board, a President, a Secretary, a Treasurer and such additional officers as the Board may elect, and as the Chairman of the Board or the President may appoint. The Bylaws prohibit one person from holding the offices of President and Secretary. At December 31, 2001, the following persons had been duly elected to, and were serving in the positions indicated:

Chairman of the Board and CEO	Rodney Owen Martin, Jr.
President	Richard Lewis Bender
Executive Vice President	David Anthony Fravel
Executive Vice President & CFO	David Lawrence Herzog
Executive Vice President & CTO	John Vincent LaGrasse
Executive Vice President	Paul Leo Mistretta
Executive Vice President	Gary Dalton Reddick
Senior Vice President	Wayne Aflin Barnard
Senior Vice President	Robert Michael Beuerlein
Senior Vice President	Craig Wray Clark
Senior Vice President, General Counsel and Secretary	Pauletta Palasota Cohn
Senior Vice President	Scott Alan German
Senior Vice President & Treasurer	Gregory Alan Hayes
Senior Vice President	Robert Frank Herbert, Jr.
Senior Vice President & General Counsel	Kyle Lynn Jennings
Senior Vice President	Simon Jonathan Leech
Senior Vice President	Edmund David McClure
Senior Vice President	Mark Russell McGuire
Senior Vice President	Roy Van Washington
Senior Vice President	Steven Elliot Zimmerman
Vice President	Verna Celeste Anderson
Vice President	Reuben Ray Blackwell
Vice President	Rick Allen Borchert
Vice President	Earl Lee Bramwell
Vice President	James Joseph Carbone
Vice President	Brenda Sue Curtis
Vice President & Controller	Charles Kenneth Gibson
Vice President	Terry Paul Keiper

Vice President
Vice President
Vice President
Vice President
Vice President
Vice President

William Larry Mask
Rodney Louis O'Mara
Rembert Reeve Owen, Jr.
Richard Waldo Scott
Ronald Edwards Summers
Samuel Edgar Tinsley

Committees

The Bylaws state that the Company may designate "an Executive Committee, consisting of two (2) or more Directors, which shall have all power and authority of the Board not specifically withheld," and "such other committees, each consisting of two (2) or more persons... as may seem desirable for the conduct of the business of the Company." At December 31, 2001, the following persons were duly elected by the Board to serve on the Executive Committee:

Rodney Owen Martin, Jr. Chairman
David L. Herzog
Joe Kelly
Carl J. Santillo

The following persons were duly elected by the Board to serve on the Company's Investment Committee at December 31, 2001:

Richard W. Scott, Chairman	Allen Nussenblatt
William Fish	Jim Ramsey
Gordon S. Massie	Scott Richland
Richard Mercante	Sam Tillinghast

The investment committee approves each investment. The minutes of the Investment Committee are approved by the Board of Directors and the Committee's decisions are ratified. Copies of the Committee's minutes and a quarterly list of acquisitions and dispositions are attached to the Board minutes. The Company's investment procedures appear to comply with Tenn. Code Ann. § 56-3-408(b)(1).

Conflict of Interests

Prior to the merger with AIG in 2001, American General Corporation published a Policy on Business Conduct which contained a Statement of Policy and Interpretive

Questionnaire, or conflict of interest statement. Directors, officers and key employees of the Company were required to complete the questionnaire annually.

Under AIG, the Company is subject to AIG's Code of Conduct which contains a discussion of Ethical Business Standards. The Company's officers and directors complete the AIG Code of Conduct Re-Certification and Questionnaire on an annual basis. AIG's Corporate Legal Compliance Group (CLCG) has direct responsibility for the distribution, collection and review of the Code of Conduct questionnaires. Human resource managers at each company help to ensure that officers and directors complete the questionnaire on a timely basis. Any potential conflicts of interests are brought to the immediate attention of an attorney in the CLCG. In 2002, the CLCG implemented a process whereby officers and directors can complete the annual Code of Conduct questionnaire online via AIG's intranet site.

The Code of Conduct is imprinted with "American International Group, Inc." and the corporate logo. The questionnaire form is used for all entities within the holding company system. Persons required to complete the questionnaire signed only one form regardless of the number of positions they hold with different companies throughout the AIG holding company system.

Examination procedures included a review of conflict of interest statements completed during the period of examination. Intercompany transactions with other members within the Company's holding company system were also reviewed for purposes of detecting the existence of conflicts of interests. The examiners noted no instances of pecuniary interest as defined in Tenn. Code Ann. § 56-3-103, existing with the Company's officers or directors through the review of these and other corporate documents, records and transactions.

Corporate Records

The Company's current Certificate of Authority was issued July 1, 1986, and is effective until suspended or revoked. The Amended and Restated Charter of the Company was approved by the Commissioner of Insurance with an effective date of March 21, 1990. There were no subsequent amendments. The Company's Bylaws, as

adopted May 14, 1991, and last amended May 5, 1992, were relied upon for this examination. No subsequent amendments were noted. The Company's corporate records are maintained in its Nashville offices.

Minutes of the meetings of the shareholders of the Company from May 16, 1997 through February 27, 2002 were reviewed and found to be in good order. The primary activity on the shareholder's agenda each year was to appoint the Board of Directors. Other major events on the agendas were the adoption of plans of merger whereby the Independent Life and Accident Insurance Company and Home Beneficial Life Insurance Company would be merged into the Company; and adoption of resolutions to sell Independent Life Insurance Company and Independent Fire Insurance Company via Stock Purchase Agreements.

Minutes of the meetings of the Board of Directors of the Company from February 20, 1997 through November 16, 2002 were reviewed and found to be in good order. All attachments and committee minutes reviewed are kept with the Board minutes.

Holding Company System

The Company and its parent are members of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-201. A consolidated organizational chart is attached to this report as Attachment A. The Company's ultimate parent, American International Group, files a Holding Company Registration Statement annually as required by Tenn. Code Ann. § 56-11-205. Prior to AIG's acquisition of AGC, the Statement was filed annually by AGC. The following is a summary of contracts and agreements that were in place during the period of examination with other members in the Company's holding company system. All relationships and related transactions were verified to have been properly reported in the respective annual Holding Company Registration Statements submitted to the Tennessee Department of Commerce and Insurance as required by statute.

Servicing Agreement

The Company is party to a Servicing Agreement with all other entities in the American General group which states that,

...each AFFILIATE, when called upon by another AFFILIATE to provide a service which the former is qualified to perform, to provide such requested service to such AFFILIATE ... the AFFILIATE providing such service is reimbursed for costs and expenses which it has incurred in providing such service by the AFFILIATE receiving such service, so that neither AFFILIATE incurs a loss nor realizes a profit at the expense of the other AFFILIATE...

This Agreement is supplemented by a Standard Practice Memorandum from AGC, dated December 19, 1996, which states that direct expenses between entities "must be substantiated by an invoice or other documentation" and that allocated expenses, such as salaries and overhead, are to be "based on an approved allocation methodology," which is reviewed by department managers at least annually. Invoices between entities are to be prepared and mailed monthly and balances are to be cleared quarterly.

The original Servicing Agreement was executed July 31, 1975, and the Company was added by amendment January 1, 1984, as were other entities as they were acquired by AGC. The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-206(a)(1) during the previous examination of the Company.

Memorandum of Understanding

The Company is also a party to a Memorandum of Understanding between itself and AGPIC whereby the Company's sales personnel will issue and service insurance policies on behalf of AGPIC. In return, AGPIC agrees to "pay the Company for its services an amount equal to ten percent (10%) of Insurance Revenues [premiums collected less returns]." This Memorandum, which was addressed in the previous examination, is an "informal interpretation of one aspect of the services that are to be provided under the terms and conditions of the Servicing Agreement" (discussed above). The Servicing Agreement was determined in the previous examination to satisfy the requirements of Tenn. Code Ann. § 56-11-206(a)(1).

Intercompany Note (Liquidity Program)

Effective December 31, 1986, the Company entered into an Intercompany Note with AGC under which the Company may borrow sums from AGC to meet liquidity needs. Interest is based on the Morgan Prime Rate.

Approval of this liquidity program by the Tennessee Department of Commerce and Insurance was granted June 8, 1987. It was determined to be exempt from Tenn. Code Ann. § 56-11-206(a)(3) as long as the outstanding balance owed by the Company does not exceed the lesser of 10% of the Company's admitted assets or 50% of the Company's capital and surplus in excess of the minimum capital and surplus requirement.

The Company's outstanding balances under this note were reviewed for the period under examination and it appears that the Company has adhered to the limits set by the Tennessee Department of Commerce and Insurance.

Investment Policy

The Board of Directors adopts an investment policy for the Company annually, usually at its November meeting. The investment policies for the period under examination were reviewed and appear to be in compliance with the limitations established by Tenn. Code Ann. § 56-3-303. The Company's investment practices, as performed by the investment committees and officers, appear to follow the guidelines as established by the investment policy.

Investment Pool Agreement

The Company is party to an Investment Pool Agreement with all other entities in the American General Group. The agreement permits the Insurers and other AG affiliates to invest funds in three short-term pools: a liquidity pool consisting of money market instruments with short maturities, a money market pool consisting of intermediate-term money market instruments; and a securities lending pool consisting of money market instruments with intermediate maturities. The agreement states that American General Investment Management LP (AGIM) will manage the pool and State Street Bank and Trust Company will be the fund custodian. The proposed Investment Pool Agreement was submitted for prior approval to the Department of Commerce and Insurance on July 9, 1999 in accordance with Tenn. Code Ann. § 56-11-206 (2) (D) and received approval on August 18, 1999.

Investment Management Agreement

The Company was party to an investment agreement with AGIM that was in effect during the period of examination. The Agreement is part of an original Servicing Agreement with AGC executed and signed by the Company on July 31, 1975. This agreement was reviewed in the previous examination and was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-206(a) (1).

Investment Advisory Agreement

The Company's investment manager, AGIM, was replaced by AIG Global Investment Corp (AIGGIC) in an Investment Advisory Agreement effective January 1, 2002. This agreement was submitted for prior approval to the Department of Commerce and Insurance in accordance with Tenn. Code Ann. § 56-11-206 (2) (D) and received approval on February 15, 2002.

Intercompany Federal Income Tax (FIT) Consolidation Agreements

The Company was party to the following three Federal Income Tax (FIT) Consolidated Agreements during the examination period:

- 1) The Company was party to a Restated and Amended American General Corporation Holding Company System Agreement Concerning the filing of Consolidated Federal Income tax Returns beginning Tax Year 1984 that was executed on May 24, 1989 with an effective date of January 1, 1984. This FIT agreement covered the filing of a consolidated federal income tax return with the parent company AGC and affiliates through Tax Year 1997. The agreement was reviewed in the previous examination and determined to satisfy the requirements of Tenn. Code Ann. § 56-11-206(a)(1).
- 2) The Company was party to a Restated and Amended American General Corporation Holding Company System Agreement Concerning the filing of Consolidated Federal Income Tax returns beginning Tax Year 1998. This agreement, which was executed on August 18, 1999, covers the filing of a consolidated federal income tax return with the parent company, AGC, and affiliates through August 29, 2001. This FIT agreement was submitted for prior approval to the Department of Commerce and Insurance in accordance with Tenn. Code Ann. § 56-11-206 (2) (D) and received approval on April 20, 1999.
- 3) After the acquisition of AGC by AIG, the Company became a party to an Agreement Concerning the Filing of Consolidated Federal Income Tax Returns beginning Tax Year 2001. This agreement, which was executed on

September 11, 2002, covers the filing of a consolidated federal income tax return with the parent company, AGC Life Insurance Company, and various affiliated "life insurance" subsidiaries. This agreement covers the filing of consolidated federal income tax returns from August 30, 2001 to the present. This FIT agreement was submitted for prior approval to the Department of Commerce and Insurance in accordance with Tenn. Code Ann. § 56-11-206(2)(D) and received approval on April 4, 2002.

Reinsurance Agreements

The Company is party to reinsurance agreements with some of its affiliates which are described in the "Reinsurance" section of this examination report.

Dividends

The Company pays ordinary and extraordinary dividends, as defined in Tenn. Code Ann. § 56-11-206(b), to its parent on a regular, usually quarterly, basis. The Company appears to comply with the aforementioned Code section in the payment of dividends.

The dividends paid during the examination period and the corresponding Department of Commerce and Insurance approval in accordance with Tenn. Code Ann. § 56-11-206 (b) are presented as follows:

<u>Date Paid</u>	Type: (E)xtraordinary /(O)rdinary	<u>Amount Paid</u>	<u>Date of Departmental Approval</u>
1997			
	E	\$79,000,000	12/19/97
	O	98,000,000	not required
1998			
3/31	E	121,000,000	3/11/98
6/30	E	52,000,000	6/5/98
9/28	E	58,000,000	9/1/98
1999			
3/31	E	52,000,000	3/19/99
9/28	O	54,000,000	not required
9/30	E	48,000,000	6/11/99
12/27	E	100,000,000	12/20/99
2000			
3/29	E	81,000,000	3/23/00

<u>Date Paid</u>	Type: (E)xt extraordinary / (O)rdinary	<u>Amount Paid</u>	<u>Date of Departmental Approval</u>
9/29	E	40,000,000	9/21/00
12/28	E	89,000,000	12/15/00
2001			
3/29	E	57,000,000	3/13/01
6/28	E	54,000,000	6/26/01
12/27	E	<u>50,000,000</u>	12/5/01
Total		<u>\$1,033,000,000</u>	

Fidelity Bond and Other Insurance

The Company is a named insured on a Financial Institution Bond carried by its parent company, American General Corporation. The bond has an aggregate and single limit of \$100,000,000 with a deductible of \$5,000,000. This is in excess of the minimum range recommended by the NAIC of \$450,000 to \$500,000.

Other insurance policies were reviewed and the major coverages in effect as of the date of this examination are summarized below. Coverages listed are in the name of the Company's parent, AGC, and the Company is covered as an insured subsidiary.

<u>Type of Coverage</u>	<u>Limits & Deductibles</u>	
Commercial General Liability	\$ 2,000,000	General Aggregate
	\$ 1,000,000	Each Occurrence
	\$ 25,000	Deductible per occurrence
Commercial General Liability	\$ 1,000,000	Combined Limit - BI/PD
Employee Benefits Liability	\$ 1,000,000	Deductible per occurrence
Workers' Compensation	Stat. Limits	
	\$ 1,000,000	Deductible per occurrence
Automobile Liability	\$ 1,000,000	Combined Limit
	\$ 500,000	Deductible per occurrence
Blanket Property, Rental Income & Extra Expense, Including EDP & Valuable Papers	Blanket Limit	Each Occurrence
	\$ 100,000	Deductible

<u>Type of Coverage</u>	<u>Limits & Deductibles</u>	
Commercial Crime Policy	\$ 3,000,000	Each Occurrence
Outside Property Managers	\$ 25,000	Deductible per occurrence
Pension Trust (Fiduciary)	\$ 50,000,000	Total Limit
Insurance	\$ 250,000	Deductible per occurrence
Group Travel Accident	\$ 5,500,000	Aggregate Limit No Deductible
Directors and Officers Liability	\$ 15,000,000	Per Wrongful Act and Aggregate
Excess Umbrella Coverage	\$ 300,000,000	Excess of primary limits
	\$ 25,000	Deductible – SIR

The insurance companies affording coverage at both the date of examination and current were reviewed to determine if coverage was provided by companies licensed to operate in the State of Tennessee. As a result of this review, it was determined that all companies except for two were found to be licensed in the State. The insurance companies in question are X.L. Insurance Company Ltd. and A.C.E. Insurance Company Ltd. Both companies provided excess insurance as of the date of examination, are located in the country of Bermuda, and are not licensed to operate in either Tennessee or Texas (location of AGC). However, subsequent to the date of examination, the Company (with AIG as its ultimate parent) renewed similar coverages with companies licensed to operate in Tennessee.

Employee Welfare

The Company offers full-time, salaried, employees a comprehensive employee benefit program which is summarized as follows:

<u>Benefit</u>	<u>Coverage, Limits and Deductibles</u>
Medical Plans	Employees may choose from two indemnity Options, AIG Choice Plus and HMO Medical Plans with varying deductible and out-of-pocket expense amounts. AIG Choice Plus participants are reimbursed for 90% for in-network hospital charges and 70% for out-of-network hospital charges, and pays 85% (in network) or 70% (out-of-network) for most other medically necessary expenses,

<u>Benefit</u>	<u>Coverage, Limits and Deductibles</u>
	after the deductible, up to the out-of-pocket maximum. Thereafter, they are reimbursed for 100% of covered charges up to a lifetime maximum of \$2,000,000. HMO coverage is also available through AIG National HMO, a self-insured healthcare plan
Dental	Employees have the choice of two optional dental coverages, AIG Dental Plan or the Aetna Dental Maintenance Organization (DMO). The plans vary slightly in coverage with 100% of preventative treatment, 50% of orthodontic treatment and 50 to 100% for basic and major treatment after a \$50 deductible. The Aetna DMO has no deductible.
Disability	The Plan pays benefits based on length of service and monthly pay as of the last date actively at work. 80% of base pay, for the first half of eligibility and 50% of base pay for the second half. Total eligibility varies from 0 to 12 weeks. Employees with five or more years of employment received 80% of base pay for the entire period.
Group Life Insurance	Company pays full cost. The coverage is one times annual base salary, rounded up to the next highest thousand; the minimum amount of coverage is \$50,000 and the maximum is \$250,000
Dependent Life Insurance Plan	Optional for employee and dependents; may receive \$20,000 of coverage for legally married spouse and/or \$4,000 of coverage for each eligible child
Travel Accident	Company pays full cost. Accidental death and dismemberment coverage of up to five times base salary while traveling on Company business.
Thrift and Incentive Plan	Company contributes \$1 for each \$3 of contributions of the first 3% of pay. AIG offers a variety of investment alternatives through The Vanguard Group, SunAmerica, Fidelity, BRAZOS, Janus, Templeton and Berger. Investment in the AIG Stock Fund, which is also an option, is limited solely to Company matching contributions.
Stock Purchase Plan	AIG Employee Stock Purchase Plan offers employee the opportunity to purchase AIG Common Stock at a discount.

BenefitCoverage, Limits and Deductibles

Retirement

Automatic program, company pays full cost. Retirement benefit is based on a formula which takes into account years of Credited Service with AIG, as well as Average Final Compensation (the highest three years in a row out of the last ten years of regular base wages and commissions).

Reimbursement Plans

Health care and dependent daycare reimbursement plans are available, with employee contributions made on a pre-tax basis.

Territory, Plan of Operation and Insurance in Force

The Company's Restated Charter states,

"the corporation is organized for the purposes of insuring the lives of persons and engaging in the business of life insurance and coupled therewith the right to grant and sell annuity or contract loans... The corporation is also organized for the purpose of making insurance against accident to persons in traveling and against disabilities to persons by disease or sickness of other bodily infirmities."

The Company is licensed to transact the business of life and disability insurance in forty-two states and the District of Columbia. Listed below is a tabulation of the Company's 2001 premiums and annuity considerations by state.

State	Licensed Insurer	Life Insurance Premiums	Annuity Considerations	Accident and Health Premiums
Alabama	YES	42,261,364	797,327	4,188,477
Alaska	NO	59,859	876	3,616
Arizona	YES	460,251	11,331	42,871
Arkansas	YES	11,811,171	276,370	1,527,113
California	YES	24,004,361	575,308	529,480
Colorado	YES	335,644	6,361	34,286
Connecticut	YES	109,586	3,711	8,049
Delaware	YES	5,170,864	252,599	236,424
District of Columbia	YES	2,318,812	11,173	22,640
Florida	YES	78,340,881	1,182,706	9,244,648
Georgia	YES	113,916,556	1,614,268	13,081,270
Hawaii	NO	43,571	907	1,276
Idaho	YES	46,000	1,218	3,637
Illinois	YES	14,690,875	609,704	468,038
Indiana	YES	12,220,984	386,207	1,444,418
Iowa	YES	213,169	3,128	14,250
Kansas	YES	3,978,397	101,062	426,617

State	Licensed Insurer	Life Insurance Premiums	Annuity Considerations	Accident and Health Premiums
Kentucky	YES	34,566,856	606,488	6,314,258
Louisiana	YES	25,514,452	528,582	2,357,269
Maine	NO	33,801	774	1,748
Maryland	YES	17,414,724	217,818	257,560
Massachusetts	NO	123,622	6,365	10,860
Michigan	YES	16,975,192	521,466	498,212
Minnesota	YES	117,411	3,704	4,704
Mississippi	YES	18,133,273	352,193	3,636,208
Missouri	YES	11,067,436	324,767	1,398,961
Montana	YES	30,809	354	3,225
Nebraska	YES	1,104,897	31,747	81,895
Nevada	YES	306,602	6,526	15,992
New Hampshire	NO	28,090	264	3,027
New Jersey	YES	1,140,865	21,800	29,074
New Mexico	YES	181,058	2,954	12,948
New York	NO	904,758	16,235	53,198
North Carolina	YES	36,864,740	580,378	5,121,984
North Dakota	YES	14,628	1,418	532
Ohio	YES	35,279,755	1,160,504	2,135,403
Oklahoma	YES	7,297,780	177,166	1,313,848
Oregon	YES	128,821	2,430	8,720
Pennsylvania	YES	65,309,215	2,643,157	5,324,726
Rhode Island	YES	20,201	1,240	1,975
South Carolina	YES	34,174,869	465,501	4,728,840
South Dakota	YES	22,602	599	1,268
Tennessee	YES	77,647,978	1,459,079	8,195,430
Texas	YES	54,327,625	1,333,103	5,888,044
Utah	YES	55,689	970	4,149
Vermont	NO	14,980	437	2,815
Virginia	YES	55,261,981	655,685	3,670,087
Washington	YES	220,885	7,189	28,112
West Virginia	YES	14,829,618	501,489	1,445,939
Wisconsin	YES	143,625	5,014	12,483
Wyoming	NO	26,215	2,865	1,058
American Samoa	NO			
Guam	NO	3,569		46
Puerto Rico	NO	16,818	26	468
U.S. Virgin Islands	NO	9,147	41	810
Canada	NO	3,201		43
Aggregate Other	XXX	124,107	2,134	3,788
Total		819,421,210	17,476,719	83,846,862

The certificates of authority for all states listed above were reviewed without exception.

At December 31, 2001, approximately 4,300 agents distributed the Company's products that mainly include a diverse range of whole life, universal life, term life, family plans, and whole life with spouse and child term riders.

The Company historically focused on marketing its products to lower-income Americans. The Company is building on its current distribution by development of the middle-income market. Management is experienced in its core business and has demonstrated its commitment to growing its business through acquisitions by its recent acquisitions of Home Beneficial Life Insurance Company and Independent Life and Accident Insurance Company. The company is committed to continued growth through strengthening its current distribution channels. Listed below is a tabulation of the Company's Insurance in force during the examination period.

Insurance in Force (amount in thousands)

<u>Type</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Industrial	\$2,308,891	\$2,188,985	\$2,081,813	\$1,974,317	\$1,874,419
Ordinary	63,383,996	65,864,620	66,113,117	63,498,810	61,530,791
Credit Life	10,763	31	11	3	0
Group	<u>158,097</u>	<u>92,388</u>	<u>77,593</u>	<u>70,434</u>	<u>63,773</u>
TOTAL	\$65,861,747	\$68,146,024	\$68,272,534	\$65,543,564	\$63,469,283

Agents sign a Sales Employee Employment Agreement that applies to both the Company and its affiliate, American General Property Insurance Company. This agreement identifies the specific rules, instructions and expected conduct of agents, staff supervisors, management training associates and district managers in the selling of insurance. (See caption "Market Conduct Activities" for further discussion of the Company's underwriting practices.) A sample of agreements was reviewed for proper execution with no exceptions. The Company's procedures for appointing agents and reporting them to the Tennessee Department during the period of examination were reviewed for a selected sample of agents. Based on the examiner's review, it appears that the Company appoints and reports agents in accordance with Tenn. Code Ann. § 56-6-152(a) and 153(a).

Growth of Company

The growth of the Company, as reported by the Company in its annual statements is presented as follows:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Funds (Surplus)</u>	<u>Premiums and Annuity Considerations</u>
1997	\$8,800,935,765	\$8,332,222,401	\$169,583,261	\$1,062,295,798
1998	8,743,618,131	8,369,962,354	68,849,407	1,036,610,738
1999	8,644,649,538	8,240,245,302	99,597,866	1,039,843,116
2000	8,502,515,309	8,135,377,279	(29,368,340)	901,045,270
2001	8,438,703,727	8,088,828,361	(49,791,667)	843,893,522

Mortality and Loss Experience

The mortality experience on industrial, ordinary and group life, including related benefits, as developed from the amounts shown in the Company's annual statements for the years indicated, is presented as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<u>Industrial Life</u>					
Net Death Benefits Incurred	35,135,006	35,647,569	35,577,799	37,743,275	21,443,354
Less - Reserves Released by Death	26,337,248	26,158,706	26,216,902	28,031,723	16,921,156
Actual Death Benefits Incurred	8,797,758	9,488,863	9,360,897	9,711,552	4,522,198
Expected Mortality	29,416,124	30,331,568	31,259,227	31,666,268	18,272,771
Mortality Experience Ratio	.2991	.3128	.2995	.3067	.2475
<u>Ordinary Life</u>					
Net Death Benefits Incurred	363,433,629	358,272,108	387,546,077	391,899,679	289,099,416
Less - Reserves Released by Death	116,975,234	103,270,826	100,502,145	99,626,525	70,492,737
Actual Death Benefits Incurred	246,458,395	255,001,282	287,043,932	292,273,154	218,606,679
Expected Mortality	387,095,115	377,022,239	343,296,616	312,514,051	241,310,151
Mortality Experience Ratio	.6207	.6764	.8361	.9352	.9059
<u>Group Life</u>					
Net Death Benefits Incurred	1,803,439	1,655,616	2,092,561	1,713,660	1,464,150
Less - Reserves Released by Death	1,532,949	1,407,274	1,773,315	1,452,220	1,175,224
Actual Death Benefits Incurred	270,520	248,342	319,249	261,440	288,926
Expected Mortality	689,106	782,538	884,886	533,083	485,504
Mortality Experience Ratio	.3926	.3174	.3608	.4904	.5951

The loss ratios on the Company's group, collectively renewable and individual accident and health business for the years indicated is presented as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
<u>Group A&H</u>					
Net Incurred Claims	24,793,706	(100,603)	(230,730)	25,272,751	6,109,013
Net Premiums Earned	12,316,759	0	39,229,273	29,996,595	16,489,664
Loss Experience Ratio	2.0130	N/A	(.0059)	.8425	.3705
<u>Collectively Renewable A&H</u>					
Net Incurred Claims	25,467	140,875	31,086	62,131	19,286
Net Premiums Earned	60,748	62,271	69,073	80,110	85,946
Loss Experience Ratio	.4192	2.2623	.4500	.7756	.2244
<u>Individual A&H</u>					
Net Incurred Claims	46,937,929	46,547,163	47,870,808	51,364,414	55,839,165
Net Premiums Earned	65,582,456	76,325,291	89,310,986	103,240,454	108,423,832
Loss Experience Ratio	.7157	.6099	.5360	.4975	.5150

Statutory Deposits

In compliance with statutory and other requirements, the Company maintained the following deposits with the named jurisdictions at December 31, 2001:

State	Description	Par Value	Statement Value	Market Value
AZ	Chandler AZ Mun PPTY Cor Mun Bds 7% due 7/1/2004	\$100,000	\$99,887	\$106,800
AR	U.S. Tr. Bds; 9.13%, due 5/15/2009	155,000	152,063	174,060
	U.S. Tr. Notes 5.75% , due 8/15/2003	200,000	200,363	209,468
GA	U.S. Tr. Notes; 7.25%, due 8/15/04	45,000	45,159	49,120
NM	U.S. Tr. Notes; 5.75%; due 8/15/2003	125,000	125,227	130,918
NC	U.S. Tr. Bds, 9.13% due 5/15/2009	520,000	510,147	583,944
	U.S. Tr. Bds 10.38% due 11/15/2009	50,000	48,471	58,711
	U.S. Tr. Notes, 5.75% due 8/15/2003	100,000	100,182	104,734
OH	U.S. Tr. Notes; 8.38%; due 8/15/2008	100,000	100,737	108,328
	U.S. Tr. Bds, 10.75%, due 8/15/2005	50,000	57,261	61,117
SC	U.S. Tr. Bds; 9.13%; due 5/15/2009	125,000	122,632	140,371
TX	U.S. Tr. Bds 11.13%, due 8/15/2003	520,000	523,445	587,033
	U.S. Tr. Notes; 5.75%; due 8/15/03	580,000	581,053	607,457
WV	U.S. Tr. Notes; 5.75% due 8/15/2003	1,550,000	1,552,813	1,623,377
Total Special Deposits (not all policyholders)		4,220,000	4,219,440	4,545,438

State	Description	Par Value	Statement Value	Market Value
FL	U.S. Tr. Notes 8.38% due 8/15/2008	150,000	151,105	162,492
	U.S. Tr. Bds, 9.13% due 5/15/2009	225,000	220,737	252,668
	U.S. Tr. Notes, 11.75% due 2/15/2010	420,000	464,084	513,647
	U.S. Tr. Bds, 11.13% due 8/15/2003	1,500,000	1,509,937	1,693,365
	U.S. Tr. Notes, 7.25% due 8/15/2004	25,000	25,644	27,289
TN	Summer Cnty TN Indl Dev Brd Mun Bds Rev 6.63% due 10/1/2003	405,000	404,179	422,832
	Summer Cnty TN Indl Dev Brd Mun Bds Rev 6.7% due 10/1/2004	435,000	433,928	459,917
	U.S. Tr. Bds; 9%; due 11/15/2018	300,000	326,472	406,032
	U.S. Tr. Notes; 6.63%; due 5/15/2007	430,000	464,456	472,329
	U.S. Tr. Notes; 5.75%; due 8/15/2003	1,100,000	1,101,997	1,152,074
	U.S. Tr. Notes; 7.25% ; due 8/15/2004	100,000	102,575	109,156
Total Other Deposits (all policyholders)		<u>5,090,000</u>	<u>5,205,114</u>	<u>5,671,801</u>
Total Statutory Deposits		<u>\$9,310,000</u>	<u>\$9,424,554</u>	<u>\$10,217,239</u>

Securities deposited with the State of Tennessee designated as "Other Deposits" are held for the protection of all policyholders of the Company. The \$2,833,607 statement value of the Tennessee statutory deposit at December 31, 2001 far exceeded the \$200,000 required by Tenn. Code Ann. § 56-2-104(a)(2). Securities deposited with all other states designated as "Special Deposits" are held for the protection of Company policyholders residing only in that jurisdiction and/or for other stated purposes. Deposits with all jurisdictions were verified by direct correspondence with the custodians of such deposits.

Market Conduct Activities

Rating and Underwriting Practices

The Company principally issues traditional ordinary permanent and ordinary term life insurance. The Company also markets four types of accident and health insurance coverages: accident indemnity, cancer expense, hospital indemnity and Medicare supplement. Annuity policies are issued as a single premium immediate and deferred, and with flexible premiums on qualified individual retirement accounts.

Ordinary life insurance is offered in the "Executive Series" and the "Custom Series". The Custom Series is available for applicants who need only modest amounts

of life insurance, that is, up to face amounts of \$10,000. The Executive Series is available in policy amounts exceeding \$10,000. A blood profile is required for those applicants requesting coverage of \$100,000 or more, ages 17 and older.

The Company's maximum retention limit on any one life without regard to age or rating class is \$500,000. The retention limit for accidental death benefit on any one life is \$200,000.

The Company utilizes the underwriting manual of one of its primary reinsurers, Swiss Re, to assess and classify life insurance risk. This manual is the combination of the Swiss Re Life Guide and the former Lincoln Re Life Underwriting Manual. The manual defines a standard risk as that which has a numerical rating of 120 or less and a mortality ratio of 100%. Risks with mortality ratios between 125% and 500% of standard are generally issued on a rated basis. Risks above 500% are normally declined.

The administrative function of risk selection is the responsibility of the New Business Department of the Company. Underwriting practices and procedures are established and controlled by the Underwriting and Claims Committee which consists of seven members appointed by the President of the Company. The committee's chairman is the Senior Vice President, Customer Service, and membership includes representation from five other Company departments.

The Company underwritings functions are divided into four units called Teams 1 through 4. Teams 1, 2 and 3 handle operations pertaining to specific designated licensed states. For example, Team 1 is assigned to Alabama, Arkansas, Florida, Illinois, Mississippi and Tennessee. The functions of each team include application processing, underwriting (including declining or rejecting applicants) and policy issuing.

Team 4 provides support to all the other team members of the New Business Department, including the maintenance of telephones, annuity application processing, and other office functions. This team is not subdivided by state.

The Company's rate books and their use in calculating premiums were tested as part of the examination actuarial review. No material exceptions were noted.

Policy Forms

The examiners reviewed a sample of the policy forms that were used by the Company during the period of examination. All forms reviewed were noted without exception as having been filed with the Tennessee Department prior to their use. The filings are consistent in form and include appropriate documentation.

Treatment of Policyholders and Claimants

Claims for the period January 1, 2000 through April 18, 2003 (more than 136,600 records) were reviewed for timeliness of payments which was measured as the number of days from the date the claim was reported to the Company to the date that the claim was paid and/or closed. The Company paid approximately 91% of its claims in 60 days or less for the period reviewed as presented in the table below:

Number of Days to Pay Claim	Life	Percent	Cancer	Percent	AD&D	Percent	Total	Percent
0 – 30	96,762	71.37%	21,207	96.27%	133	42.49%	118,122	74.79%
31 – 60	25,113	18.52%	548	2.49%	95	30.35%	25,756	16.31%
61 – 90	7,290	5.38%	157	0.71%	30	9.58%	7,477	4.73%
91 – 120	2,890	2.13%	53	0.24%	8	2.56%	2,951	1.87%
121 – 150	1,092	0.80%	46	0.21%	21	6.71%	1,159	0.73%
151 – 180	766	0.56%	12	0.05%	1	0.32%	779	0.49%
181 – 210	408	0.30%	0	0.00%	8	2.56%	416	0.26%
211 – 240	238	0.18%	2	0.01%	6	1.91%	246	0.16%
241 – 270	159	0.12%	0	0.00%	4	1.28%	163	0.10%
271 – 300	100	0.07%	0	0.00%	3	0.96%	103	0.07%
301 – 330	71	0.05%	1	0.01%	0	0.00%	72	0.05%
331 – 360	64	0.05%	0	0.00%	0	0.00%	64	0.04%
361 +	632	0.47%	3	0.01%	4	1.28%	639	0.40%
	136,605	100.00%	22,029	100.00%	313	100.00%	157,947	100.00%

Policyholder Complaints

The Company maintains a complaint register as required by various state Unfair Trade Practices Acts. The register and the accompanying files are maintained for a minimum of five years. A detailed listing of complaints, which identified each by state, complainant and/or insured, policy number, type of complaint, resolution, etc., as reviewed by the examiners is summarized as follows:

<u>Year</u>	<u>Number of Complaints</u>
1997	151
1998	168
1999	145
2000	223
2001	141
2002	104
2003	50 (through July)

A sample of the Company's recent complaint files were reviewed to confirm that the company is processing complaints in accordance with its Complaint Management System which includes a target time of ten days in which to send a formal written response to the complainant. The complaint files are well-documented and demonstrate that the Company is handling complaints promptly and appropriately. The majority of the Company's complaints is regarding unsatisfactory claim settlements and denied claims.

Advertising

The Company's advertising program utilizes limited media and consists mainly of printed and published materials, and descriptive literature and sales aids, such that may encourage and create public interest in products offered by the Company. National advertising, in the form of television commercials ads, is in the name of the Company's parent, AIG, and does not refer to the Company specifically.

General product information and a limited number of forms, such as policy loan applications and automatic bank check (ABC) authorizations, are available on the Company's internet website.

All advertisement and promotional materials are reviewed and approved by the Company's legal department prior to use. Advertising material provided by the Company was reviewed and no deceptive or misleading statements in the Company's advertising were noted.

Reinsurance

The following is a summary of the Company's reinsurance coverage in effect at December 31, 2001:

Life Reinsurance Assumed

Agreements with Affiliates

The Company assumes a closed block of individual life and annuity business from an affiliated company, American General Life Insurance Company, Texas, on a coinsurance (CO) basis. This treaty was effected January 1, 1982 and had \$16,269,733 in force at year-end 2001. However, the block of business is 100% retroceded to another affiliate, AGC Life Insurance Company, Missouri, and is thus a "pass-through" for the Company.

Other Agreements

Effective January 1, 1989, the Company entered into an agreement with Family Service Life Insurance Company under which the Company assumed a closed block of one year's (1989) issues of single premium, 2-, 3-, 5- and 10-pay individual life policies on a coinsurance basis. Insurance in force on this block of business totaled \$20,874,000 at December 31, 2001.

The Company assumes, on a coinsurance basis, a closed block of group annuities from Southern Life and Health Insurance Company. This agreement was effected December 30, 1982. The business assumed is 100% retroceded to AGC Life Insurance Company, and is therefore a "pass-through" for the Company.

The Company has only one treaty whereby it assumes business on a combination coinsurance/modified coinsurance (CO/MOD-CO) basis: an agreement with Companion Life Insurance Company that was effected October 1, 1975. The business assumed consists of a closed block of individual life policies for which the insurance in force totaled \$1,900,000 at year-end 2001.

The Company assumes relatively small, closed blocks of business on both yearly renewable term (YRT) and coinsurance bases from other various insurers. The major amounts assumed are presented as follows:

<u>Company</u>	<u>Type of Reinsurance</u>	<u>Total in Force at 12/31/2001</u>
Connecticut General Life Ins. Co.	YPT-Individual	\$5,719,567
Connecticut General Life Ins. Co.	CO-Individual	2,346,908
Lincoln National Life Ins. Co.	YPT-Individual	4,817,399

<u>Company</u>	<u>Type of Reinsurance</u>	<u>Total in Force at 12/31/2001</u>
National Farmer's Union Life Ins. Co.	YPT-Individual	2,758,603
National Farmer's Union Life Ins. Co.	CO-Individual	6,200,070

The above listing represents many treaties that have effective dates ranging from 1952 through 1998. The Company also assumes immaterial amounts from General Life Insurance, Mountain Life Insurance Company and Transamerica Occidental Life Insurance Company. A block of group YRT business assumed from GE Life and Annuity Assurance Company (formerly, the Life Insurance Company of Virginia) under a 1968 treaty has been recaptured and no insurance remains in force at year-end 2001.

Accident and Health Reinsurance Assumed:

The Company assumes only two blocks of accident and health (A&H) business. Both are part of a series of financial reinsurance agreements arranged by RGA Financial Group, L.L.C., and both are ultimately assumed from the Company's affiliate, AGC Life.

The first block consists of group A&H business written by American Fidelity Life Insurance Company, which is ceded to RGA Reinsurance Company, and then ceded to AGC Life on a CO/MOD-CO basis. AGC Life cedes 48% of the business to the Company on a quota share CO/MOD-CO basis in accordance with a treaty effected July 1, 2001. Premiums assumed by the Company under this treaty totaled \$12,316,759 for 2001.

The second block consists of group credit A&H policies that are written by Union Security Life Insurance Company, ceded to RGA Reinsurance Company, ceded to AGC Life on a coinsurance with funds withheld basis, ceded to the Company on an earned basis. The block represents a "pass through" arrangement for the Company, but was terminated by a novation to RGA Reinsurance Company effective January 1, 2002.

Other than noted above, there were no major changes in structure of the Company's assumed life reinsurance during 2002.

Life Reinsurance Ceded

Agreements with Affiliates:

As noted above, the Company assumes a closed block of individual life and annuity business from American General Life Insurance Company, Texas, which is retroceded 100% to AGC Life Insurance Company, Missouri. Also, in accordance with an agreement effected December 31, 1985, the Company cedes a block of directly written group annuities to another affiliate, Merit Life Insurance Company, Indiana, on a 95% quota share coinsurance.

Clarica Insurance (Barbados), Ltd. (Clarica):

Effective December 31, 1995, the Company entered into a combination CO/MOD-CO indemnity reinsurance agreement with Atlantic International Reinsurance Company, Ltd., Barbados (AIRC). Under the terms of this agreement, as amended, AIRC reinsured 100% of the Company's net liability on certain term life policies issued on or before December 31, 1995. AIRC also reinsured 80% of the Company's net liability on certain term life policies issued on or after January 1, 1996.

Effective October 1, 1996, the agreement was amended to include 100% of the Company's net liability on certain executive series adjustable premium whole life policies issued on or before December 31, 1995. Also reinsured was 80% of the Company's net liability on these policies issued on or after January 1, 1996.

Effective April 1, 1999, the business ceded under the agreement with AIRC was recaptured by the Company. Simultaneously, a new agreement ceding the recaptured business was effected with Sun Life of Canada Reinsurance (Barbados), Ltd., using the same terms as the AIRC agreement. Sun Life was subsequently purchased and renamed Clarica Insurance (Barbados), Ltd., and on October 1, 1999, the agreement between Clarica and the Company was closed with respect to new business. In 2002, Clarica was sold back to the Sun Life Financial Group and it was renamed Sun Life Reinsurance Company Limited. It remains located in Barbados.

At December 31, 2001, the amount of insurance in force under this treaty totaled \$4,031,553,362, and Clarica had afforded the Company a Letter of Credit in the amount of \$30,000,000 which exceeded the \$28,260,099 reserve credit taken by the Company.

Manulife Reinsurance Ltd. and Employers Re/Lincoln National/Swiss Re Pool:

Effective October 1, 1999, the Company entered into a reinsurance agreement under which it ceded 100% of certain ordinary life policies to Manulife Reinsurance Ltd., Bermuda, on a combination CO/MOD-CO basis. Manulife then ceded 90% of the mortality risk to a Pool composed of Employers Reassurance Corporation, Lincoln National Life Insurance Company and Swiss Re Life and Health America, Inc. The Pool participants divided the premiums equally. Under the structure, the Company reimbursed Manulife for the YRT premiums Manulife paid to the Pool, and Manulife paid the Company the death benefits that Manulife received from the Pool.

On October 1, 2001, this arrangement was restructured to consist of two components: a YRT component whereby the Company cedes 90% of the mortality risk on the block of policies to Employers, Lincoln National and Swiss Re, equally; and a CO/MOD-CO component whereby the Company cedes the remaining 10% of the mortality risk and all of the deficiency reserves to Manulife. In actual practice, the Company cedes 100% of the CO/MOD-CO component to Manulife, but reduces the premium paid by the YRT portion of the premium paid to the Pool; and the claim payments remitted by Manulife to the Company are reduced by the claim payments that the Company receives from the Pool.

Also effective October 1, 1999, the Company entered into an agreement whereby it cedes 90% of the mortality risk on interest-sensitive life policies to the Pool on a YPT basis.

The aggregate amount of insurance in force at December 31, 2001 as ceded to Clarica, Manulife, Employers Re, Lincoln National and Swiss Re under the above described agreements is nearly \$14,000,000,000 and represents almost 95% of the Company's ceded business. However, the blocks ceded to Manulife and the Pool, as described above, were closed to new issues beginning in April 2002.

At December 31, 2001, Manulife had given the Company a Letter of Credit in the amount of \$29,600,000, which exceeded the \$29,382,264 reserve credit taken by the Company.

Other Agreements:

Under a reinsurance agreement effective February 1, 1992, World-Wide Reassurance Company, Ltd., United Kingdom, assumed the liabilities of First Capital Life Insurance Company, which included policies ceded by the Company. At December 31, 2001, only one of these policies remained in force.

A number of reinsurance agreements were "inherited" by the Company through the acquisition of other insurance companies. After these insurers merged with the Company they wrote no new business and, consequently, no further business was ceded to reinsurers. This is the primary reason for the number of agreements on a run-off basis.

Letters of Credit:

In order for the Company to take reinsurance credits totaling \$57,681,294 in its 2001 Annual Statement, the Company obtained Letters of Credit aggregating \$59,600,000 as follows:

<u>Letter of Credit Provided By:</u>	<u>Applicant</u>	<u>For Drawings Up To:</u>
Royal Bank of Canada (through its U.S. Headquarters in New York)	Clarica Ins. (Barbados) Ltd.	\$30,000,000
Bank of Montreal	Manulife Reinsurance Ltd.	27,200,000
Citibank, N.A.	Manulife Reinsurance Ltd.	2,400,000

The aggregate Letters of Credit, trust agreement funds held for AGC and other balances totaling \$121,007,258 were exceeded by the aggregate reinsurance credit of \$122,998,798 by \$1,991,540 which was shown as a liability for "reinsurance in unauthorized companies" by the Company at year-end 2001.

Accident and Health Reinsurance Ceded:

As mentioned above, the Company assumed a block of group credit A&H policies that was ceded to Union Security Life Insurance Company on an earned basis until this "pass-through" arrangement was terminated in 2002.

Most of the Company's A&H cessions, however, related to an agreement with Union Fidelity Life Insurance Company effective January 1, 1994. According to the agreement the Company cedes 100% of its Medicare supplement policies issued prior to January 1, 1994 and 80% of the Medicare supplement policies issued subsequent to Union Fidelity on a coinsurance basis. Premiums totaled \$14,507,496 for 2001.

All of the reinsurance contracts reviewed were found to contain acceptable clauses for insolvency and arbitration. With the exception of the "pass through" arrangements described above, they also appear to effectuate proper transfer of risk in accordance with NAIC guidelines.

Accounts & Records

A review of the Company's accounting system indicates that records appear to conform to generally accepted insurance accounting practices and to accurately reflect the operations of the Company during the period covered by this examination, except as otherwise commented upon in this report. For each of the five years covered by this examination, the Company prepared computer-generated "statutory" trial balances that were reconciled, proved in balance and traced to various exhibits and schedules of the respective annual statements by the examiners. Detail information in the various exhibits and schedules was also traced to worksheets in the Company's December 31, 2001 RBC report to verify accuracy.

The Company's principal accounting records are maintained primarily on an automated computer system, although certain entries each month are completed manually. Accounting records are produced from various source documents including cash receipts, cash disbursements, journal entries and other specific entry documents.

The Company's GAAP and statutory financial statements are audited annually as part of the audit performed for the Company's parent and affiliates by an

independent CPA firm. Material weaknesses in the internal control structure of the Company under standards established by the AICPA, if any, would be disclosed in these letters. No such weaknesses were noted in the management letters during the five-year examination period.

The Company utilizes the services of an independent actuarial firm to produce opinions on its loss and loss adjustment expense reserves. For each of the years under review, the opinions were signed by a fellow of the Casualty Actuarial Society and member of the American Academy of Actuaries.

Litigation, Contingent Liabilities and Subsequent Events

Industrial Life Settlement:

On December 10, 1999, a class action suit was filed against the Company, *Leola Mc Neil v. American General Life and Accident Insurance Company et al*, Civil Action No. 3-99-1157 (M.D. TN 1999), challenging the Company's pricing practices with respect to certain minority purchasers of industrial life insurance and seeking compensatory and punitive damages and injunctive relief. The suit involved small face-amount life insurance policies known as "industrial life insurance" with the allegation that black customers were overcharged for burial insurance because of their race. The companies that sold the policies in question had been acquired by the Company's parent and subsequently consolidated into the Company. The Company ceased writing industrial life insurance more than 20 years ago.

On June 21, 2000, the Company entered into a settlement in the State of Florida whereby the Company agreed to make restitution totaling \$206 million, pay fines of \$7.5 million to regulators in five southern states (where most of the insurance was sold) and contribute \$2 million to the National Association for the Advancement of Colored People.

Effective June 30, 2000, the Company entered into an Assignment and Assumption of Liabilities Agreement with AGC whereby AGC assumed almost all non-insurance liabilities of the Company related to the industrial life class action and associated regulatory issues settlement, in exchange for approximately \$235.8 million. The consideration paid represented an amount equal to the statutory liability recorded

by the Company, minus \$12.5 million in liabilities not assumed by AGC. Concurrent with these actions, AGC made a contribution of approximately \$91.7 million to the Company to maintain its company action level RBC at 2.5 times, as is AGC's current business policy.

Merger of Company Pension Plans:

Effective January 1, 2002, the assets and liabilities of the American General Retirement Plan were merged into the American International Group, Inc.'s retirement plan. The American General Retirement Plan was eliminated and all employees were transitioned into the AIG benefit structure effective January 1, 2003. The corporate resolution, in accordance with the Bylaws of AIG, was adopted by unanimous consent in lieu of meeting of the Executive Committee of the Board of Directors dated December 30, 2002. The merger was directed as a means of simplifying administration of pension benefits between the two companies with no change in benefits under the plan.

Contingent Liabilities

Based on the results of examination procedures, a review of transactions occurring after the balance sheet date, a review of subsequent financial statements, and confirmations with third parties, there are no known commitments or contingencies as of December 31, 2001 that would require additional disclosure in this report on examination.

Financial Statement

There follows a statement of assets, liabilities and a summary of operations as of December 31, 2001 together with a reconciliation of capital and surplus for the period under review, as established by this examination.

Assets
As of December 31, 2001

	<u>Ledger</u> <u>Assets</u>	<u>Non-Admitted</u> <u>Assets</u>	<u>Net-Admitted</u> <u>Assets</u>
Bonds	\$ 6,507,529,691		\$ 6,507,529,691
Stocks:			
Common Stocks	78,636,487		78,636,487
Preferred Stocks	91,110,183		91,110,183
Mortgage Loans on Real Estate: First Liens	633,807,330	959	633,806,371
Real Estate:			-
Properties Occupied by the Company	55,911,107		55,911,107
Properties Held for the Production of Income	6,553,756		6,553,756
Properties Held for Sale	7,205,197		7,205,197
Policy Loans	423,173,109	390,744	422,782,365
Cash and Short-Term Investments	116,146,483		116,146,483
Other Invested Assets	153,408,248		153,408,248
Receivable for Securities	5,042,691		5,042,691
Aggregate Write-ins for Invested Assets	2,269,634		2,269,634
Reinsurance Ceded:			-
Amounts Recoverable from Reinsurers	15,546,754		15,546,754
Commissions and Expense Allowances Due	17,441,195		17,441,195
Experience rating and Other Refunds Due	7,569,382		7,569,382
Other Amounts Receivable Under Reinsurance Contract	7,429,078		7,429,078
Electronic Data Processing Equipment and Software	13,973,563	3,352,084	10,621,479
Federal and Foreign Income Tax Recoverable	412,263,000	358,019,000	54,244,000
Guaranty Funds Receivable or on Deposit	5,311,878		5,311,878
Life Insurance Premiums and Annuity Considerations			-
Deferred and Uncollected on Inforce Business	9,860,690	583,025	9,277,665
Accident and Health Premiums Due and Unpaid	11,557,556	608,003	10,949,553
Investment Income Due and Accrued	128,004,659	126,291	127,878,368
Receivable from Parent, Subsidiaries and Affiliates	2,786,967		2,786,967
Amounts Due from Agents	304,297	304,297	-
Other Assets Nonadmitted	10,849,901	10,849,901	-
Aggregate Write-ins for Other Than Invested Assets	760,964,807	671,719,612	89,245,195
			-
Total Assets	<u>9,484,657,643</u>	<u>1,045,953,916</u>	<u>8,438,703,727</u>

Liabilities, Surplus & Other Funds
As of December 31, 2001

Aggregate Reserve for Life Policies and Contracts	\$ 7,347,529,047
Aggregate Reserve for Accident and Health Policies	157,602,829
Liability for Deposit-Type Contracts	48,589,362
Policy and Contract Claims:	
Life	59,650,824
Accident and Health	26,197,439
Policyholders' Dividends and Coupons Due and Unpaid	1,128
Provision for Policyholders' Dividends/Coupons Payable in 2002	
Dividends apportioned for payment to 2002	1,587,000
Coupons and Similar Benefits	12,000
Premiums and Annuity Considerations Rec'd in Advance	8,119,009
Policy and Contract Liabilities Not Included Elsewhere:	
Provision for Experience Rated Refunds	906,755
Other Amounts Payable on Reinsurance	29,951,172
Interest Maintenance Reserve	58,847,416
Commissions to Agents Due or Accrued	5,895,998
Commissions Payable on Reinsurance Assumed	3,483,012
General Expenses Due or Accrued	26,795,909
Taxes, Licenses and Fees Due or Accrued, Excl. FIT	10,042,551
Federal Income Taxes Due or Accrued	52,985,764
Unearned Investment Income	2,224,743
Amounts Withheld or Retained by Company as Agent	90,487,372
Remittances and Items Not Allocated	22,625,000
Liability for Benefits for Employee and Agents	6,107,956
Miscellaneous Liabilities:	
Asset Valuation Reserve	24,663,380
Reinsurance in Unauthorized Companies	1,991,540
Payable to Parent, Subsidiaries and Affiliates	21,437,983
Payable for Securities	25,162
Aggregate Write-ins for Liabilities	81,068,010
Total Liabilities Excl. Separate Accounts Business	<u>8,088,828,361</u>
Common Capital Stock	75,603,885
Gross Paid In and Contributed Surplus	324,063,148
Unassigned Funds (Surplus)	<u>(49,791,667)</u>
Surplus as Regards Policyholders	<u>349,875,366</u>
Totals	<u>\$ 8,438,703,727</u>

Summary of Operations
For the Period Ended December 31, 2001

Premiums and Annuity Considerations	\$ 843,893,522
Considerations for Supplementary Contracts with Life Contingencies	68,422
Net Investment Income	634,138,038
Amortization of Interest Maintenance Reserve	3,181,164
Commissions and Expense Allowances on Reinsurance Ceded	47,110,666
Reserve Adjustments on Reinsurance Ceded	10,244,504
Aggregate Write-ins for Miscellaneous Income	4,359,987
Total	<u>1,542,996,303</u>
Death Benefits	400,372,104
Matured Endowments (Excl. Guaranteed Annual Pure Endowments)	16,412,683
Annuity Benefits	54,275,888
Disability Benefits and Benefits under Accident and Health Policies	68,102,071
Coupons, Guaranteed Annual Pure Endowments and Similar Benefits	13,676
Surrender Benefits and Other Fund Withdrawals	246,495,481
Interest on Policy or Contract Funds	8,687,311
Payments on Supplementary Contracts with Life Contingencies	929,480
Increase in Aggregate Reserves for Life and A&H Policies and Contracts	(17,958,074)
Total	<u>777,330,620</u>
Commissions on Premiums, Annuity Considerations and Deposit-type Funds	154,763,509
Commissions and Expense Allowances on Reinsurance Assumed	22,032,509
General Insurance Expenses	237,943,872
Insurance Taxes, Licenses and Fees, Excluding Federal Income Taxes	35,815,419
Increase in Loading on and Cost of Collection in Excess of Loading on	
Deferred and Uncollected Premiums	(2,246,917)
Aggregate Write-ins for Deductions	(68,285,306)
Total	<u>1,157,353,706</u>
Net Gain from Operations Before Dividends to Policyholders	
and Before Federal Income Taxes	385,642,597
Dividends to Policyholders	1,559,241
Net Gain from Operations After Dividends to Policyholders	
and Before Federal Income Taxes	384,083,356
Federal Income Taxes Incurred (Excluding Tax on Capital Gains)	86,749,000
Net Gain from Operations After Dividends to Policyholders and	
Federal Income Taxes and Before Realized Capital Gains or (Losses)	297,334,356
Net Realized Capital Gains or (Losses) Less Capital Gains Tax	
and Transferred to the IMR	<u>(36,176,641)</u>
Net Income	<u><u>\$ 261,157,715</u></u>

Capital and Surplus Account

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Total capital and surplus,					
December 31, previous year	\$786,885,141	\$468,713,364	\$373,655,777	\$404,404,236	\$367,138,030
Net income	205,785,231	191,163,646	261,970,212	318,972,011	261,157,715
Change in net unrealized capital gains (losses)	(793,376)	(2,480,976)	9,414,051	(535,029)	(179,509,182)
Change in net deferred income tax					(38,609,000)
Change in non-admitted assets	6,170,051	10,300,406	20,080,537	5,370,670	26,639,630
Change in liability for reinsurance in unauthorized companies	3,096,222	187,745	14,250	(18,433)	(1,962,609)
Change in asset valuation reserve	27,430,523	(2,971,587)	(7,799,546)	(1,451,310)	74,924,662
Cumulative effect of change in accounting principles					3,841,419
Change in paid in capital		5,676,267		91,700,000	3,160,663
Change in paid in surplus					
Change in surplus as a result of Reinsurance	(14,447,346)	(10,816,821)	3,067,503	(23,356,335)	(5,905,962)
Dividends to stockholders	(527,744,000)	(231,000,000)	(254,000,000)	(210,000,000)	(161,000,000)
Adjustments to prior year FIT and related interest	(17,749,082)	1,560,000	6,934,766	31,892,504	
Litigation Settlement		(56,676,267)	4,000,000	(249,840,284)	
Net change for the year	(318,171,777)	(95,057,587)	30,748,459	(37,266,206)	(17,262,664)
Total capital and surplus,					
December 31, current year	<u>\$468,713,364</u>	<u>\$373,655,777</u>	<u>\$404,404,236</u>	<u>\$367,138,030</u>	<u>\$349,875,366</u>

Comments

Risk Based Capital

The RBC levels and comparisons to adjusted capital as reported by the Company in its December 31, 2001 annual statement are as follows:

<u>RBC Level of Action</u>	<u>RBC Amount</u> ⁽²⁾	<u>Total Adjusted</u> <u>Capital Per Company</u> \$375,332,246	<u>Total Adjusted</u> <u>Capital Per Exam</u> ⁽¹⁾ \$353,335,968
Company Action Level	\$171,663,662	219%	206%
Regulatory Action Level	128,747,747	292%	274%
Authorized Control Level	85,831,831	437%	412%
Mandatory Control Level	60,082,282	625%	588%

- (1) The Total adjusted capital per exam is based on the examination adjustments summarized on the preceding page.
- (2) RBC Amounts were not recalculated since the adjustment in column 4 would have resulted in a decrease in the value admitted on the 2001 Annual Statement and consequently a decrease in the RBC Amount at each level. Since the resulting values in column 4 are well above statutory requirements at each level, the same would be true for a lower recalculated RBC amount as a result of the decrease in the balances. Therefore, the financial statement adjustments made as a result of this examination are deemed immaterial with respect to the Company's December 31, 2001 RBC levels.

The capital balances and percentages as listed above far exceed the amounts that would have triggered a Company Action Level Event and requirements as listed in Tenn. Code Ann. § 56-46-104.

Bonds & Stocks

The Company's custodian agreement with State Street Bank and Trust in effect as of the date of examination did not meet the requirements set forth by Tenn. Code Ann. § 56-3-112(b) and Regulation 0780-1-46-.04. The Company, State Street Bank and certain representatives of the Tennessee Department of Commerce and Insurance worked to resolve the problem prior to the completion of the examination and created a newly amended agreement dated June 3, 2003 that met the standards set forth by Statutes.

The Company listed in the 2001 Annual Statement 126 bonds and preferred stocks with a total statement value of \$217,963,032 on Schedule D – Parts 1 and 2 that had a NAIC designation of (4), (5) or (6). These would normally not be allowed as admitted assets in accordance with Tenn. Code Ann. § 56-3-303(a)(1-3). However, these securities will be considered admitted assets for purposes of this examination under the “basket clause” within Tenn. Code Ann. § 56-3-303(a)(15).

Mortgage Loans

The examiners reviewed 13 loans which exceeded the statutory LTV limit of 75% imposed by Tenn. Code Ann. § 56-3-303(a)(11). Seven loans were made prior to the period of this examination and were commented on in the previous report on examination. Six of the loans were made during the period of this examination, the most recent with a LTV ratio of 96.8% being made on October 31, 2001. However, the Company states in its Notes to Financial Statements that it has no loans made with original loan to value exceeding 73%.

These 13 excess loans had a total balance of \$92,997,689. According to Company documentation of values of land and buildings securing these loans, the 75% limit would only allow loan balances of a total of \$84,991,815 for these 13 loans. The remaining \$8,005,873 of mortgage loan balances in excess of the statutory limit is admitted under the “basket clause” within Tenn. Code Ann. § 56-3-303(a)(15).

Conflict of Interest Statements

Examination procedures included a review of conflict of interest statements completed by the Company’s directors and officers as listed on the jurat pages in the 1997 through 2002 Annual Statements. The Company was unable to provide completed statements for 1997 and 1998 for 53 Company officials due to the fact the questionnaires had been archived in storage and were unable to be located. For years 1999-2002, the Company was able to locate questionnaires for all but 14 of the Company’s officials. It is recommended that the Company implement stricter and more comprehensive procedures that ensure completed questionnaires are received for all

Company officials and that they are readily available for review by representatives of the Tennessee Department of Commerce and Insurance.

Aggregate Reserves

The Tennessee Department of Commerce and Insurance contracted with an independent actuarial firm to assist with this examination. It is their opinion that the actuarial balance sheet items covered by their examination have been fairly stated and calculated properly using appropriate valuation approaches and assumptions, therefore no adjustments have been made for examination purposes. Reserve trends were reviewed for reasonableness after adjusting for the following significant changes:

1. The Independent Life and Accident Insurance Company (ILA) was merged into AGLA on December 31, 1997. During 1997 ILA's business was converted to AGLA's systems, and reserve methods were changed to confirm to AGLA's methods. In particular, Traditional life business now uses interpolated midterminal reserves plus an unearned premium, where prior to the merger, reserves were held using a mean reserve approach with an offsetting deferred premium asset. As a result of actuarial system changes related to the merger with ILA, the net statutory reserve (reserve less net deferred premium) increased by approximately \$12 million, most of which related to the change to the Traditional life interpolation method.
2. Home Beneficial Life insurance Company (HBL) was merged into AGLA on December 31, 1997. During 1997, HBL's business was converted to AGLA's systems, and reserve methods were changed to confirm to AGLA's methods. In particular, Traditional life business now uses interpolated midterminal reserves plus an unearned premium, where prior to the merger, reserves were held using a mean reserve approach with an offsetting deferred premium asset. As a result of actuarial system changes related to the merger with HBL, the net statutory reserve (reserve less net deferred premium) decreased by approximately \$33 million. Of the total, \$22 million resulted from the change to the Traditional life interpolation method, \$8 million resulted from moving a block of employee group business outside of AGLA, and the remaining \$3 million resulted from a number of other small changes.
3. AGLA modified its deficiency reserve methodology during 1999 and 2000. The changes in 1999 strengthened reserves by approximately \$13 million, and the changes were recorded through surplus. The changes in 2000 destrengthened reserves by approximately \$2 million, and the changes were not recorded through surplus.
4. The disabled life reserve system was enhanced during 1998, resulting in a reserve increase of \$6 million.

5. The payout annuity valuation system was enhanced during 2000, resulting in a statutory reserve reduction of \$2.5 million.
6. AGLA entered into several new reinsurance treaties during the examination period January 1, 1997 through December 31, 2001 and recaptured business ceded under several other treaties.

Comments resulting from their examination are as follows:

1) Reinsurance Income Misstatements

AGLA accounted for surplus relief incorrectly on the Atlantic International Reinsurance financial reinsurance treaty during 1995 through 1999. AGLA recorded the reserve liability appropriately as the direct reserves net of ceded coinsurance reserves. The change in reserves during each year was recorded through income, consistent with typical statutory accounting requirements. Because Tennessee's insurance regulation does not permit statutory income gains to occur as a result of ceding blocks of inforce business, AGLA should have recorded an entry to offset the income effect of the reserve change, with the offsetting entry in a direct to surplus account. Instead, in each year during the period 1995 through 1998, AGLA recorded an entry to commission and expense allowances and surplus for an amount in excess of that required to offset the income effect of the reserve increase. Therefore, income was overstated in each of these years. **The overstatement in income in each year was offset by the direct charge to surplus; therefore, balance sheet surplus was not misstated in any year.** Balance sheet reserves were also correct for each year. In 1999, AGLA discovered the error and made a cumulative income adjustment of \$37.9 million, recorded through commission and expense allowances with an offset in a direct to surplus account. The 1999 understatement in income was offset by an equal direct increase to surplus, and 1999 surplus was therefore not misstated. **Report reserves at the end of 1999 were not misstated as a result of the error.**

An additional reinsurance error occurred at year-end 1999, when a reinsurance entry on the Clarica treaty was recorded in reverse, and income was understated by \$11.7 million as a result. This error was corrected in 2000, thus overstating 2000 earnings. **The cumulative income effect of these reinsurance errors is zero, and the reserves and surplus on the balance sheet were reported appropriately at each year-end.**

2) Deficiency Reserves Changes:

During 1999, three major changes were made to the deficiency reserves: correction of errors in deficiency reserve factors (increasing reserves); changes to valuation bases to use the maximum valuation interest rates and select mortality (decreasing reserves); and development of a methodology to aggregate various coverages for each policy rather than to calculate the deficiency reserve for each coverage separately (decreasing reserves). The net impact of the

changes was to increase deficiency reserves by \$13 million, and the change was appropriately recorded through surplus. During 2000, additional coverages were included in the aggregation, reducing deficiency reserves. Correction of newly identified errors partially offset the reduction in reserves due to the change in the aggregation approach. None of the 2000 changes were reported as surplus adjustments, either through Exhibit 8A or as surplus write-ins, even though the changes were similar to those made in 1999. Income in 2000 is overstated by approximately \$2 million as a result of failing to record the reserve release through surplus. **The balance sheet is unaffected by this error.**

3) Other Changes in Methods or Corrections of Errors:

During the examination period from January 1, 1997 through December 31, 2001, the only reserve change recorded through Exhibit 8A was the 1999 deficiency reserve change. A number of methodology changes occurred during the period but were not reported as surplus adjustments. These include:

- The \$12 million strengthening of reserves during 1997 on ILA acquired business;
- The \$25 million destrengthening of reserves during 1998 HBL acquired business;
- The \$6 million strengthening of disable life reserves in conjunction with a system enhancement in 1998;
- The \$2.5 million destrengthening of payout annuity reserves in conjunction with a system enhancement in 2000; and
- The \$2.0 million deficiency reserve destrengthening during 2000.

Failing to report these adjustments as changes in methods in Exhibit 8A or as a surplus write-in has resulted in misstatements of income as follows (positive is overstatement of income):

1997	(\$12.0M)	ILA system conversion
1998	\$19.0M	HBL system conversion; disabled life reserves
1999	\$0.0M	
2000	\$4.5M	payout annuity reserves; deficiency reserves
2001	<u>\$0.0M</u>	
Cumulative	<u>\$11.5M</u>	

Summary of Income Misstatements

The combined income misstatements, including reinsurance accounting errors and failing to record system conversion and enhancement effects through surplus is as follows, for the five years covered by the current examination:

1997	\$0.1M
1998	25.1M
1999	(49.6)M

2000	16.2M
2001	<u>0.0M</u>
Cumulative	<u>(\$8.2M)</u>

None of the errors in accounting affected reported reserves or surplus as of any year-end.

Director and Officer Compensation

Tenn. Code Ann. § 56-3-105 (*Regulation of compensation of officers, agents and employees of life insurance companies and fraternal benefits societies*) states in paragraph (b) (2), that it does not prohibit life insurance companies from entering into an agreement with any officer or employee thereof for a stock option plan, stock purchase plan, or other such incentive plan, provided that before such plan is entered into or becomes effective it is first approved by the commissioner. The Company's supplemental compensation exhibit to the annual statement shows salary, bonus, and other compensation being paid to Company officers. There is no record of the Company obtaining approval from the Commissioner under the above referenced statute to make supplemental compensation.

Subsequent Events

The Company's pension plan, which was over-funded as of the date of this examination, was accounted for in accordance with SSAP #8 as a \$666,674,602 non-admitted prepaid pension benefit. The merger of the plan with the plan of the Company's parent was effective January 1, 2002 and was accounted for as a dividend to parent. However, the merger was not accounted for in the Company's statutory financial statements until March 31, 2004, twenty-seven months after the effective date of the merger. There is no record that the Company obtained prior approval of the merger.

Recommendations

Bonds & Stocks

In accordance with NAIC examination procedures, the examiners requested trade tickets and brokers advices as support for a sample of the Company's purchases and sales of securities. The examiners also requested the Company to reconcile unrealized capital gains (losses) per the annual statement to the AVR & IMR calculations. Despite repeated requests, the information could not be provided. Alternative examination procedures that tested these transactions by using information obtained from other sources were performed without exception by the examiners in order to satisfy the examination objectives for the related financial statement items.

The Company attempted to provide the requested information to the examiners but records management shortcomings prevented them from doing so. The Company relied on their investment advisors with American General Investment Management to provide the majority of this information. Based upon correspondence with Company personnel, this information was being kept at the offices of the Company's parent in Houston, TX in such a disorganized manner that it could not be located. The Company also relied on their investment advisors with American International Group Global Investment Corp to also provide supporting documentation. Another contributing factor was the transfer of many the investment records of the parent Company to New York as a result of their acquisition by AIG. It is recommended that the Company implement improvements in its investment records management and retention procedures to ensure that these original records can be provided to the examiners in accordance with Tenn. Code Ann. § 56-1-411(b)(1).

Mortgage Loans

At December 31, 2001 the Company included a \$7.3M Legg Mason Mortgage Capital Corporation credit tenant loan in Mortgage Loan Schedule B. In accordance with Statutory Accounting Principles, this investment should be reported in Schedule D as a bond. Also, this credit tenant loan had an NAIC designation of (5) and would normally not be allowed as an admitted asset in with Tenn. Code Ann. 56-3-303(a)(1-2).

However, it will be considered an admitted asset for purposes of this examination under the "basket clause" within Tenn. Code Ann. 56-3-303(a)(15).

This security was originally accounted for by the Company in Schedule D, but it was requalified as a mortgage loan by the Company after it was downgraded by the SVO. This action was taken by the Company because it was deemed to be more advantageous for RBC reporting purposes. It is recommended that the Company properly classify such investments in future statutory filings, with Statutory Accounting Principles being the determining factor for their classification rather than favorable RBC factors. Tenn. Code Ann. § 56-1-501(g) provides that financial statements shall be prepared in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual.

Conclusion

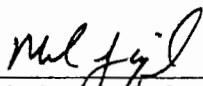
The customary insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of American General Life and Accident Insurance Company.

In such manners, it was determined that, as of December 31, 2001, the Company had admitted assets of \$8,438,703,727 and liabilities, exclusive of capital and surplus, of \$8,088,828,361. Thus, there existed for the additional protection of the policyholders, the amount of \$349,875,366 in the form of common capital stock, gross paid-in and contributed surplus and unassigned funds (surplus).

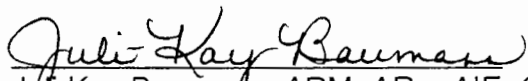
The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Ms. Julie Curry, FCAS, MAAA, Mr. Anthony J. Pipia, ACAS, MAAA, and Mr. Pradeep Kumar, FSA, MAAA, Consulting Actuaries of INSGROUP, LLC and Ms. Dinah Reddix, Examiner, Tennessee Department of Commerce and Insurance participated in the work of this examination.

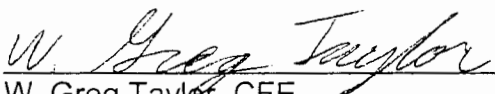
Respectfully submitted,



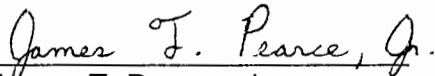
Mark Jaquish, CFE, CPA
Insurance Examiner-in-Charge
Tennessee Department of Commerce and Insurance



Juli-Kay Baumann, ARM, ARe, AIE, CFE, CPCU
Representing the Tennessee Department of Commerce and Insurance



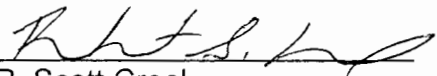
W. Greg Taylor, CFE
Representing the State of Delaware
Northeastern Zone



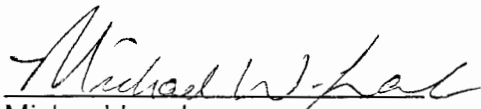
James T. Pearce, Jr.
Examiner III, Tennessee Department of Commerce and Insurance



Gregory Bronson
Examiner II, Tennessee Department of Commerce and Insurance



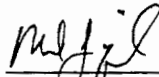
R. Scott Creel
Examiner II, Tennessee Department of Commerce and Insurance



Michael Lamb
Examiner II, Tennessee Department of Commerce and Insurance

Examination Affidavit

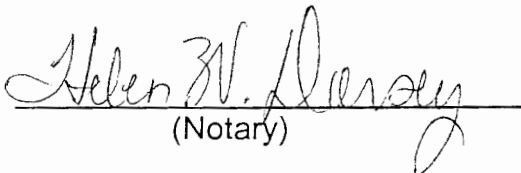
The undersigned deposes and says that he has duly executed the attached examination report of American General Life & Accident Insurance Company dated April 20, 2004 and made as of December 31, 2001, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.



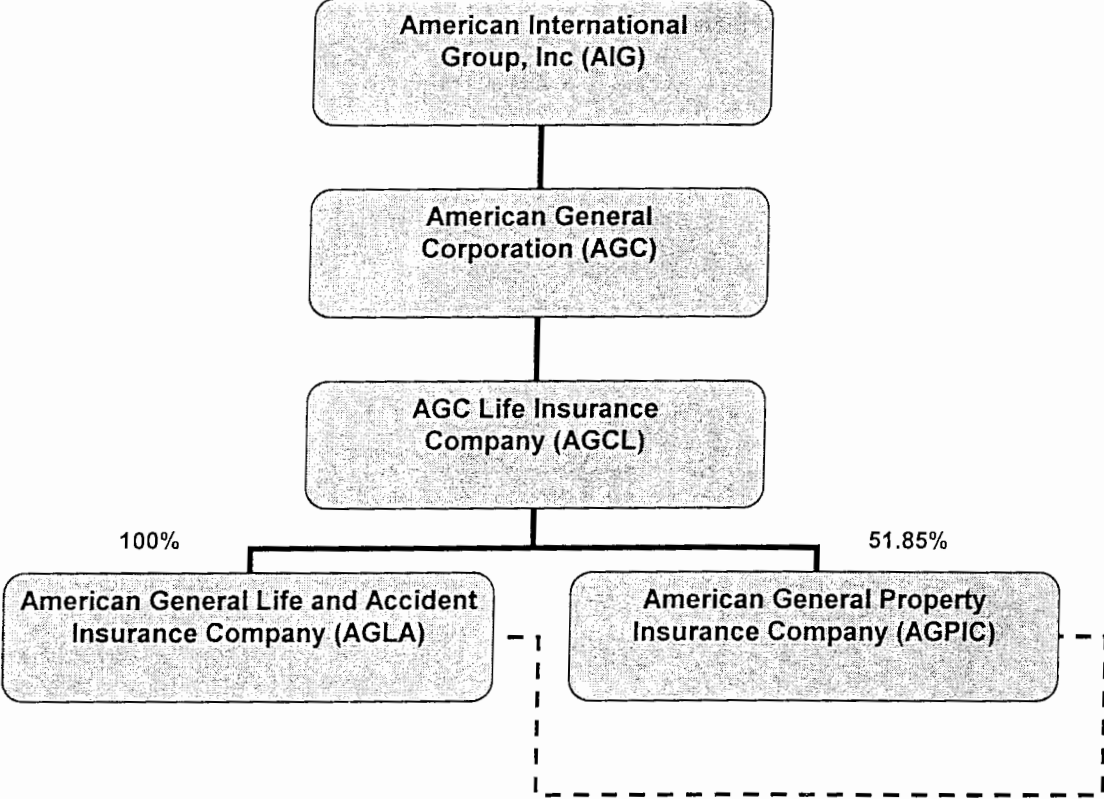
Mark Jaquish
Insurance Examiner
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me
this 30th day of
August, 2004.


(Notary)

Organizational Chart



Organizational Chart showing all affiliated companies of AIG Holding Company is filed as an attachment to Holding Company Registration Statements which are filed annually with respective states' insurance departments.

ATTACHMENT A

ROBINS H. LEDYARD
TEL: (615) 742-6259
FAX: (615) 742-2759
Rledvard@bassberry.com

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

AMSOUTH CENTER
315 DEADERICK STREET, SUITE 2700
NASHVILLE, TN 37238-3001
(615) 742-6200

www.bassberry.com

OTHER OFFICES:

NASHVILLE MUSIC ROW
KNOXVILLE
MEMPHIS

September 2, 2004

BY MESSENGER

Honorable Don Spann, CFE
Insurance Examination Director
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

**Re: Financial Condition Examination of American General
Life and Accident Insurance Company and
American General Property Insurance Company
Made as of December 31, 2001**

Dear Mr. Spann:

Thank you very much for copying us on your letters of August 30, 2004 and the enclosed Examination Reports on American General Life and Accident Insurance Company and American General Property Insurance Company. We represent those companies and have been asked to respond to the Report.

Kathy Fussell's description of our agreement (to make written submission or rebuttal with respect to matters contained in the Report within a seven (7) day period) is absolutely correct. This letter is intended to constitute such written submission or rebuttal.

Director and Officer Compensation (p. 46 -- AGLAIC).

At the outset, it is important to note that the entirety of Tenn. Code Ann. Section 56-3-105 applies only to payments made by domestic stock or mutual life insurance companies, or to domestic fraternal benefit societies. It does not apply to payments that a domestic insurance company's affiliates may make. We think that the Division has uniformly approached Tenn. Code Ann. Section 56-3-105 on the basis of strict interpretation, which limits its application to payments made by such companies. Several other points should be made: First, the excerpt describing subsection (a)(1) effectively has two categories. The first involves directors or employees who earned less than the amount set forth in the appropriate schedule of the Annual Statement filed with the commissioner pursuant to Section 56-1-501. . . ." and the company may compensate such directors and officers without first securing board approval. The second category involves directors and officers who make more than such amount and they may be so

EXHIBIT

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B-1

September 2, 2004

compensated upon authorization “by a vote of the board of directors of such company or society” Second, subsection (a)(2) provides that any officer or director who is paid a salary of more than \$100 per month may not receive any other compensation or emolument, and we believe this would be true for officers and directors in both of the categories described above. Third, subsection (b) provides a number of exceptions, none of which appears to be germane in the circumstance.

Here, the actions described in the draft Examination Report (i.e., payment of bonus and other compensation to certain officers of the company) were done by a company other than American General Life and Accident Insurance Company. We believe that Section 56-3-105 has no application to the compensation arrangements in question. We suggest that if any provision in Insurance Law has such application, it would probably be Tenn. Code Ann. Section 56-11-206(a)(2)(D).

We understand that American General Life & Accident Insurance Company became a party to a document captioned “Service and Expense Agreement” between American General Life and Accident Insurance Company and various AIG affiliates. We understand that the Service and Expense Agreement is a cost allocations arrangement based on generally accepted accounting principles, and that it continues to fulfill the same purpose in substantially the same way as an earlier agreement between and among members of the American General Corporation family of companies. We understand, but have not confirmed with certainty, that the various Service and Expense Agreements have been filed with the Tennessee Department of Commerce and Insurance and other regulatory authorities as and when required by law. Generally, we believe that the time when Tennessee law requires such filing would be when Forms B are filed. We also believe that prior approval under Tenn. Code Ann. Section 56-11-206(a)(2) is not required of the cost-sharing portion of the Service and Expense Agreement.

Accordingly, the Company’s actions on this point fully complied with Tenn. Code Ann. Section 56-3-105 and all relevant Tennessee laws.

Subsequent Events (p. 46 -- AGLAIC).

The American General Corporation Pension Plan Trust (the “Trust”) was not an “affiliate” of American General Life and Accident Insurance Company (the “Company”) at any time prior to the Trust’s merger into the AIG Pension Plan on February 1, 2002. The merger of the two plans involved no action of any type by the Company in the nature of voting on or consenting to the merger of the plans, nor was any such vote or consent required. The term “affiliate” is defined in Tenn. Code Ann. Section 56-11-201(b)(1), and the term “control” (an essential part of the term “affiliate”) is defined in Tenn. Code Ann. Section 56-11-201(b)(3). This may be counterintuitive, but is correct statutory analysis. Accordingly, the merger of the two plans is not subject to Tenn. Code Ann. Section 56-11-206.

In addition, in or as a result of the merger of the two plans, the Company took no action of any type involving any transfer of assets. The term “distribution” is defined in Tenn. Code Ann. Section 48-11-201(8) as “a direct or indirect transfer of money or other property or

September 2, 2004

incurrence of indebtedness by a corporation to or for the benefit of its shareholders in respect of any of its shares. A distribution may be in the form of a declaration or payment of a dividend; a purchase, redemption or other acquisition of shares; a distribution of indebtedness (which includes the incurrence of indebtedness for the benefit of the shareholders); . . ." Here, the company took no action whatsoever other than to account for merger consequences in the required way in required statutory financial statements, and there is no distribution or dividend for any statute to regulate.

Finally, the merger of the two plans is not a transaction to which Section 56-11-206 does or should apply for at least two other several reasons:

First, the plan mergers did not benefit the company's shareholders;

Second, the company's surplus was entirely unaffected by the merger of the two plans (and surplus adequacy is so important in this regard that the General Assembly devoted the entirety of Tenn. Code Ann. Section 56-11-206(d) to surplus adequacy criteria).

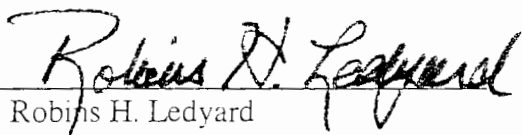
Accordingly, the Company's actions on this point fully complied with all relevant Tennessee laws.

* * *

If you or others at the Department have questions or observations, I will very much appreciate your call. You should also feel free to call Sharon Roberson or Chris Aiken.

Very truly yours,

BASS, BERRY & SIMS PLC

By 
Robins H. Ledyard

RHL:rg

Copy to: Mr. Chris Aiken (By Facsimile (749-1808))
Sharon K. Roberson, Esq. (By Facsimile (749-1808))
✓ Hon. Eric Stansell, Esq. (By Messenger)

SEP 08 2004

Dept. Of Commerce & Insurance
Company Examinations

September 8, 2004

Mr. Don Spann, CFE
Insurance Examination Director
Tennessee Department of Commerce & Insurance
Davy Crockett Tower, Fifth Floor
500 James Robertson Parkway
Nashville, TN 37243-1132

Re: American General Life & Accident Insurance Company (The Company or AGLA)
Company Response to Comments and Recommendations in the Final Examination Report For the
Period Ending December 31, 2001

Dear Mr. Spann:

We have received your August 30, 2004 letter addressed to Mr. James W. Weakley and the accompanying copy of the final examination report for AGLA covering the period ending December 31, 2001. The purpose of this letter is to provide Management's responses to the Comments and Recommendations included in the report. We have addressed each issue using the identifying captions contained in the examination report.

Comments**Risk Based Capital (Page 41)**

Examination Comment - *The RBC levels and comparisons to adjusted capital as reported by the Company in its December 31, 2001 annual statement are as follows:*

<u>RBC Level of Action</u>	<u>RBC Amount ⁽²⁾</u>	<u>Total Adjusted Capital</u> <u>Per Company</u>	<u>Total Adjusted Capital</u> <u>Per Exam ⁽¹⁾</u>
		\$375,332,246	\$353,335,968
Company Action Level	\$171,663,662	219%	206%
Regulatory Action Level	128,747,747	292%	274%
Authorized Control Level	85,831,831	437%	412%
Mandatory Control Level	60,082,282	625%	588%

- (1) The Total adjusted capital per exam is based on the examination adjustments summarized on the preceding page.
- (2) RBC Amounts were not recalculated since the adjustment in column 4 would have resulted in a decrease in the value admitted on the 2001 Annual Statement and consequently a decrease in the RBC Amount at each level. Since the resulting values in column 4 are well above statutory requirements at each level, the same would be true for a lower recalculated RBC amount as a result of the decrease in the balances. Therefore, the financial statement adjustments made as a

result of this examination are deemed immaterial with respect to the Company's December 31, 2001 RBC levels.

The capital balances and percentages as listed above far exceed the amounts that would have triggered a Company Action Level Event and requirements as listed in Tenn. Code Ann. § 56-46-104.

Management Response – Since there were no adjustments to the Company's surplus, Management respectfully requests that this Comment be deleted from the examination report.

Bonds & Stocks (Page 41)

Examination Comment – *The Company listed in the 2001 Annual Statement 126 bonds and preferred stocks with a total statement value of \$217,963,032 on Schedule D – Parts 1 and 2 that had a NAIC designation of (4), (5), or (6). These would normally not be allowed as admitted assets in accordance with Tenn. Code Ann. §56-3-303(a)(1-3). However, these securities will be considered admitted assets for purposes of this examination under the "basket clause" within Tenn. Code Ann. §56-3-303(a)(15).*

Management Response – Management agrees that the bonds and preferred stocks that had a NAIC designation of (4), (5), or (6) should be considered admitted assets under the basket clause.

Mortgage Loans (Page 42)

Examination Comment – *The examiners reviewed 13 loans, which exceeded the statutory LTV limit of 75% imposed by Tenn. Code Ann. §56-3-303(a)(11). Seven loans were made prior to the period of this examination and were commented on in the previous report on examination. Six of the loans were made during the period of this examination, the most recent with a LTV ratio of 96.8% being made on October 31, 2001. However, the Company states in its Notes to Financial Statements that it has no loans made with original loan to value exceeding 73%.*

These 13 excess loans had a total balance of \$92,997,689. According to Company documentation of values of land and buildings securing these loans, the 75% limit would only allow loan balances of a total of \$84,991,815 for these 13 loans. The remaining \$8,005,873 of mortgage loan balances in excess of the statutory limit is admitted under the "basket clause" within Tenn. Code Ann. § 56-3-303(a)(15).

Management's Response – Management will scrutinize the future disclosure of the maximum percentage of any one loan to the value of security at the time of the loan, in accordance with SSAP No. 37 – Mortgage Loans. Management agrees that the value of mortgage loans in excess of the statutory limit (75% LTV) are admitted under the "basket clause" within Tenn. Code Ann. § 56-3-303(a)(15).

Conflict of Interest Statements (Page 42)

Examination Comment - *Examination procedures included a review of conflict of interest statements completed by the Company's directors and officers as listed on the jurat pages in the 1997 through 2002 Annual Statements. The Company was unable to provide completed statements for 1997 and 1998 for 53 Company officials due to the fact the questionnaires had been archived in storage and were unable to be located. For years 1999-2002, the Company was able to locate questionnaires for all but 14 of the Company's officials. It is recommended that the Company implement stricter and more comprehensive procedures that ensure completed questionnaires are received for all Company officials and that they are readily available for review by representatives of the Tennessee Department of Commerce and Insurance.*

Management Response – Management is reviewing its retention procedures. The Assistant Corporate Secretary will maintain a copy of these records in Nashville as an assurance that the information will be readily available for review by representatives of the Tennessee Department of Commerce and Insurance. As an alternative, the company may store these documents using electronic media.

Director and Officer Compensation (Page 46)

Examination Comment - *Tenn. Code Ann. § 56-3-105 (Regulation of compensation of officers, agents and employees of life insurance companies and fraternal benefits societies) states in paragraph (b)(2), that it does not prohibit life insurance companies from entering into an agreement with any officer or employee thereof for a stock option plan, stock purchase plan, or other such incentive plan, provided that before such plan is entered into or becomes effective it is first approved by the commissioner. The Company's supplemental compensation exhibit to the annual statement shows salary, bonus, and other compensation being paid to Company officers. There is no record of the Company obtaining approval from the Commissioner under the above referenced statute to make supplemental compensation.*

Management Response – AGLA's General Counsel, Sharon Roberson, and Robins Ledyard from Bass, Berry, & Sims are representing the Company in an effort to resolve this issue with the Department and will address this comment under separate cover.

Subsequent Events (Page 46)

Examination Comment *The Company's pension plan, which was over-funded as of the date of this examination, was accounted for in accordance with SSAP #8 as a \$666,674,602 non-admitted prepaid pension benefit. The merger of the plan with the plan of the Company's parent was effective January 1, 2002 and was accounted for as a dividend to parent. However, the merger was not accounted for in the Company's statutory financial statements until March 31, 2004, twenty-seven months after the effective date of the merger. In addition, there is no record that the Company obtained prior approval of the merger.*

Management's Response - Management met with Department personnel on November 19, 2003 to discuss the recognition of the plan merger prior to recording the associated accounting impact in the fourth quarter of 2003. At that meeting, we discussed the transaction and gave the Department's staff documents that illustrated how we proposed to record the transaction. Sharon Roberson, our general counsel, believed that she had received the Department's oral approval for the proposed accounting. Sharon Roberson, and Robins Ledyard from Bass, Berry, & Sims are representing the Company in ongoing negotiations to resolve this issue with the Department and will address this comment under separate cover.

Recommendations

Bonds & Stocks (Page 47)

Examination Comment - *In accordance with NAIC examination procedures, the examiners requested trade tickets and brokers advices as support for a sample of the Company's purchases and sales of securities. The examiners also requested the Company to reconcile unrealized capital gains (losses) per the annual statement to the AVR & IMR calculations. Despite repeated requests, the information could not be provided. Alternative examination procedures that tested these transactions by using information*

obtained from other sources were performed without exception by the examiners in order to satisfy the examination objectives for the related financial statement items.

The Company attempted to provide the requested information to the examiners but records management shortcomings prevented them from doing so. The Company relied on their investment advisors with American General Investment Management to provide the majority of this information. Based upon correspondence with Company personnel, this information was being kept at the offices of the Company's parent in Houston, TX in such a disorganized manner that it could not be located. The Company also relied on their investment advisors with American International Group Global Investment Corp to also provide supporting documentation. Another contributing factor was the transfer of many of the investment records of the parent Company to New York as a result of their acquisition by AIG. It is recommended that the Company implement improvements in its investment records management and retention procedures to ensure that these original records can be provided to the examiners in accordance with Tenn. Code Ann. § 56-1-411(b)(1).

Management's Response - Unfortunately, there were some transitional matters that occurred with regards to the filing of investment records subsequent to AIG's acquisition of American General. In the future, Investment Operations Management will ensure that proper filing procedures are employed that will allow for a more efficient retrieval of requested investment documents.

Mortgage Loans (Page 47)

Examination Comment - *At December 31, 2001 the Company included a \$7.3M Legg Mason Mortgage Capital Corporation credit tenant loan in Mortgage Loan Schedule B. In accordance with Statutory Accounting Principles, this investment should be reported in Schedule D as a bond. Also, this credit tenant loan had an NAIC designation of (5) and would normally not be allowed as an admitted asset in with Tenn. Code Ann. 56-3-303(a)(1-2). However, it will be considered an admitted asset for purposes of this examination under the "basket clause" within Tenn. Code Ann. 56-3-303(a)(15).*

This security was originally accounted for by the Company in Schedule D, but it was requalified as a mortgage loan by the Company after it was downgraded by the SVO. This action was taken by the Company because it was deemed to be more advantageous for RBC reporting purposes. It is recommended that the Company properly classify such investments in future statutory filings, with Statutory Accounting Principles being the determining factor for their classification rather than favorable RBC factors. Tenn. Code Ann. § 56-1-501(g) provides that financial statements shall be prepared in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual.

Management's Response - Management believes that the second sentence in the second paragraph above, speculates as to motive and therefore, should be deleted or revised to indicate that this reference is a theory, rather than a fact. Management asserts that credit tenant loans do qualify as mortgage loans in accordance with Tenn. Code Ann. §56-3-303(a)(11) and that the pass-through certificates associated with this particular credit tenant loan, represent participations in the underlying mortgages securing this particular investment. Management further asserts that it is a standard and customary practice in the mortgage loan industry for participations in mortgage loans to be represented by pass-through certificates, as is the case with this investment.

Although this investment was originally classified as a bond, Management believes that credit tenant loans can be re-qualified as mortgage loans in accordance with Tenn Code Ann. §56-3-303(a)(23). TCA 56-3-303(a)(23) states that *"The qualification or disqualification of an investment under one subdivision of this section or section of this code does not prevent its qualification in whole or in part under another subsection or section of this code, and an investment authorized by more than one subdivision or section of this code may be held under whichever authorizing subdivision or section of this code the insurer elects. An investment or transaction qualified under any subdivision or section of this code at the time it was acquired or entered into by the insurer shall continue to be qualified under that subdivision or sections of this code. An investment, in whole or in part, may be transferred from time to time, to the authority of any subdivision or section of this code under which it then qualifies, whether or not it originally qualified thereunder."* Management respectfully requests that this comment be deleted from the examination report, since we believe there has not been a violation of Tenn. Code Ann. §56-3-303.

Management appreciates the opportunity to respond to the comments included in the Department's examination report. Please let us know if you have any questions or otherwise require clarification of any Management Responses.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Aiken", written in a cursive style.

Chris N. Aiken

Vice President – Financial Reporting